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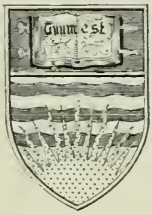

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ACCOUNTING THEORY AND PRACTICE

ADVANCED ACCOUNTING

Practice Problems

By

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THIRD REVISED EDITION

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PREFACE

The practice problem material to accompany the author's *Advanced Accounting* is arranged in two parts. In Part I will be found the short, disconnected problem material, classified in accordance with the chapters of the text to which it relates. For schools which prefer the short problem method, the material of Part I will provide ample practice. The material has been built to provid at least one substantial problem and several shorter ones for each assignment. In this way considerable variety of material relating to different points of principle is offered. Ordinarily, for a 3- or 4-semester credit point course, the practice work should require from 4 to 6 hours for each assignment. It may be shortened, if desired. A mastery of accounting requires more than a lip knowledge of principles; there must also be an ability to use principles in a given situation—and this can come only from practice. Accounting is so intensely practical, that mastery of its principles is never sure till put to a rigid test of application.

Part II contains a long connected problem or set for solution in blank books. This material is not a complete substitute for Part I, but may be used in connection with its short problem material. The material is planned to comprise about one-half or two-thirds of the usual time requirement for ten assignments, preferably to be used in connection with the second half of the text. Specific suggestion is given for its handling. The author will be glad to suggest a suitable combination of the material in Parts I and II.

In the organization of all problem material, recognition is given to the chief difficulty which students usually experience in handling their practice work, viz., the method of attack, i.e., the method of organizing their thought and materials so as to accomplish the desired end with a minimum of effort. To show the method of attack, effort has been made to state the requirements of each problem in such order and detail that the student will see the order of development of the solution. What should be done first, what next, how the student's thought and work should be organized—all

will become apparent. This method of stating problem requirements may, in some cases, seem to lengthen unduly the time required for formal solution. If so, some of the subdivisions of the solution requirement may be omitted, particularly after the student has learned the method of approach.

It will be noted that the preparation of formal journal entries is emphasized. It is difficult to impress students with the value and necessity of supporting the debit and credit analysis of a journal entry with a condensed but adequate statement of essentials of the transaction reflected thereby. Unless this is done, subsequent reference to the entry may show that it is almost wholly unintelligible and the source of the amounts used is hidden. There is a real art in the preparation of good journal entries, and its acquisition is an important part of training in accounting. The student who conscientiously works through these groups of problems will secure a very satisfactory mastery of the practical side of Advanced Accounting.

Roy B. Kester

Columbia University
New York City
September 15, 1933

ADVANCED ACCOUNTING

Practice Problems

PART I

Assignment 1

① The following post-closing trial balance is taken from the general ledger of the partnership, Barry, Skidmore and Harris on May 1, 19–:

Cash on Deposit	$ 7,854	
Petty Cash Fund	150	
Notes Receivable	8,950	
Accounts Receivable	34,640	
Reserve for Bad Debts		$ 875
Merchandise Inventory, May 1, 19–	20,890	
Accrued Interest Income	65	
Unexpired Insurance	350	
Prepaid Interest Expense	85	
Prepaid Advertising	875	
Stationery and Printing Unused	255	
Land	25,000	
Building	35,600	
Depreciation Reserve Building		2,560
Delivery Equipment	9,870	
Depreciation Reserve Delivery Equipment		2,074
Furniture and Fixtures	8,590	
Depreciation Reserve Furniture and Fixtures		1,730
Notes Payable		9,850
Accounts Payable		35,750
Salesmen's Salaries Accrued		1,875
Office Salaries Accrued		786
Taxes Accrued		1,350
Interest Accrued on Mortgage Payable		850
Mortgage Payable		42,500
Barry, Capital		17,658
Skidmore, Capital		17,658
Harris, Capital		17,658
	$153,174	$153,174

On May 1, 19–, the partnership is incorporated under the name of the B. S. H. Trading Corporation with an authorized capital stock of 1,000 shares of common stock of no-par value, and 250 shares of 7% cumula-

tive preferred stock of a par value of $100 each. The corporation takes over the assets of the partnership, including goodwill which is valued at $7,026, and assumes its liabilities. The subscriptions of the partners to 200 shares each of common stock are paid for by their respective interests in the partnership.

On May 2, the remaining 400 shares of common stock are subscribed for at $105 and 50% paid in, the balance to be paid in 2 equal instalments, 3 and 6 months from the date of subscription. At the same time, 250 shares of preferred stock are subscribed for at $110 and 50% paid in, the balance to be paid in 2 equal instalments, 3 and 6 months from date of subscription. Organization expenses for certificate, attorney's fee, etc., amounted to $1,375 and were paid in cash.

On July 31, 19–, the first call was made on the subscribers to the common and preferred stocks and on August 2 was received in cash.

On October 31, 19–, the second call was made on the subscribers to the common and preferred stocks. All subscribers paid their subscriptions in cash.

(a) Give the journal entries necessary to record all the above transactions on the books of the B. S. H. Trading Corporation.

(b) Draft the journal entries to close the partnership books.

2. The following transactions of the B. S. H. Trading Corporation—see Problem 1 above—occurred during its first fiscal year ending April 30:

Sales on account	$167,374	Freight-in	$ 4,250
Sales returns	7,735	Shipping expense	983
Notes received from customers	22,000	Light, heat, and power	1,251
Purchases on account	99,435	Salesmen's salaries	28,690
Purchase returns	3,586	Salesmen's travel expense	5,907
Purchase discounts	2,550	Advertising	3,789
Sales discounts	2,381	Delivery expense	2,238
Cash receipts:		Office salaries	10,250
From customers, less discounts	117,619	Telephone and telegraph	379
Notes payable discounted (face—$10,000)	9,800	Postage	225
Notes receivable discounted (face—$11,500)	11,270	Notes payable	10,500
Notes receivable	7,000	Officers' salaries	10,000
Interest income	80	Insurance	175
Sales for cash	23,250	Taxes	1,820
Cash disbursements:		Stationery and printing	850
Trade creditors, less discounts	82,148	Office expense	300
		New plant site	18,000
		Mortgage payable	42,500
		Mortgage interest (1 year)	1,700

At the year's end the following data were available as a basis for adjusting and closing the books:

Merchandise inventory	$15,755	Interest income accrued....	$ 115
Unexpired insurance	150	Salesmen's salaries unpaid	1,875
Prepaid interest expense ..	150	Office salaries unpaid	786
Prepaid advertising	1,350	Taxes accrued (estimate)	1,200
Postage on hand	50	Notes receivable discounted	
Sta. and printing unused...	175	not yet due	3,450

Depreciation, on a straight-line basis, is to be taken into account at the yearly rates shown: buildings 5%; delivery equipment 15%; furniture and fixtures 12%. The reserve for doubtful receivables is to be increased by ½% of net sales.

(a) Prepare a work sheet. (b) Draft a pro-forma balance sheet.

NOTE: Set up the opening trial balance of Problem 1 in ledger "T" accounts and post thereto all subsequent transactions. The trial balance of this ledger will then be set up on the work sheet, ready for adjustment and closing.

3. The following post-closing trial balance is taken from the general ledger of the J. B. Arnold Co., as of December 31, 19–:

Prepaid Insurance	$ 1,850	
Plant Property	350,000	
Furniture and Fixtures	6,000	
Notes Receivable	16,500	
Machinery and Equipment	100,000	
Finished Goods	47,800	
Delivery Equipment	4,000	
Patents, Trade-Marks, and Goodwill	500,000	
Prepaid Interest	525	
Goods in Process	53,750	
Cash	52,425	
Advances to Salesmen	750	
Raw Materials	20,000	
Factory Supplies	5,500	
Treasury Stock Preferred (Par).....	5,000	
Donated Land	80,000	
Customers' Accounts Receivable	145,900	
Reserve for Customers' Discounts.....		$ 13,500
Notes Payable		35,000
Capital Surplus		240,000
Earned Surplus		330,150
Reserve for Bad Debts		15,000
Reserve for Donated Land		80,000
Accounts Payable		62,000
Reserve for Depreciation Plant Property.....		85,000
Reserve for Depreciation Furniture and Fixtures ...		1,500
Reserve for Depreciation Mach. and Equip.		20,000
Reserve for Depreciation Delivery Equipment		2,000
Salaries and Wages Payable		2,350
8% Preferred Stock, 2,000 Shares, $50 par value each		100,000
Common Stock no-par value, 40,000 shares (Authorized issue 50,000 shares)		400,000
Preferred Dividends Payable.....		2,000
Accrued Taxes		1,500
	$1,390,000	$1,390,000

It is ascertained that the following items, effective as of December 31, were not taken into consideration upon closing the books:

Outstanding purchase orders amounted to $15,000; of which, however, $5,000 had been acknowledged and shipped f.o.b. destination; $5,000 had only been acknowledged; and $5,000 had just been issued.

Customers' orders for goods made to their specifications amounted to $37,500. Of these $15,000 were finished and ready for shipment; $15,000 were still in process; and the balance had just been received.

The outstanding purchase orders have neither been recorded on the accounting records nor included in the raw materials inventory.

The customers' orders have been accepted at a gross profit of 60% above cost. No record thereof has been made on the books of account. The merchandise which is finished and ready for shipment, and that which is still in process are included in the respective inventories.

It was also discovered that for the past 5 years Arnold had, in error, charged plant betterments to the amount of $25,000 against profits. The accrued depreciation on such betterments was estimated as $5,200.

(a) Draft a pro-forma balance sheet, taking cognizance of the additional information available.

4. The White Manufacturing Company was organized on January 15, 19–, and sold all its capital stock for cash. It then purchased for $22,000 a plot of land on one corner of which was a small building conservatively appraised at $4,000. In recording the transaction, the entire amount was charged to Land account. The company had plans drawn for a plant building. After receiving contractors' bids therefor, it rejected all bids and decided to construct the plant itself. In the course of construction the Building account was charged with the following items:

Purchases of materials, cost after discount:		
Cement block, bricks, and tile	$38,592.32	
Cement, sand, gravel, etc.	18,339.45	
Lumber, sash, and plumbing	35,711.91	
Other materials and supplies	22,532.78	$115,176.46
Cellar excavation		7,500.00
Labor on construction of plant		63,546.98
Cost of remodeling the original building to be used for company's office		3,500.00
Interest charges:		
On own capital used	$5,250.00	
On borrowed money	1,750.00	7,000.00
Discount on building and other materials used in construction as indicated above		2,800.00
Supervision of construction by management		4,000.00
Payment of claim for injuries suffered by workingmen on construction		3,000.00

Premium for compensation insurance purchased immediately after accident and continued during the construction period	750.00
Clerical and other expenses of construction	3,000.00
Paving of streets and sidewalk	3,100.00
Architect's plans and specifications	850.00
Legal expenses of conveying land	450.00
Legal expenses of settling injury claims	400.00
Profit, credited to Profit and Loss account, the amount being the difference between the company's own cost of construction and the lowest contractor's bid therefor	5,923.56

(a) Set up accounts with Land, Office Building, and Plant Building in statement form, showing in detail the items to be entered in each.

Assignment 2

(1) On June 30, 19–, the following account balances were taken from the New Era Public Utility Company's ledger:

Cash	$ 20,330,524.33	Miscellaneous Investments (Long-term)	$ 716,322.65
Notes Receivable	26,869.39	Insurance Fund	3,205,482.66
Accounts Receivable	9,484,017.75	Municipal Compensation Accrued—due city under franchise	1,612,281.45
Interest and Dividends Receivable	78,223.67	Accounts Payable	3,349,126.29
Subscribers to Capital Stock	4,723,175.14	Miscellaneous Current Liabilities	934,140.06
Capital Stock Subscriptions	6,515,700.00	Capital Stock	135,414,300.00
Premium on Capital Stock	862,438.50	Unamortized Debt Discount and Expense	5,081,290.00
Materials and Supplies	3,151,788.46	Jobbing Accounts Receivable	252,649.06
Plant and Equipment	286,736,277.01	Work in Process	101,775.86
Fuel (Coal in Storage)	2,033,573.40	Service Annuity Fund — Deposited with Trustees	4,610,487.28
Prepaid Expenses	297,828.69	Miscellaneous Deferred Debits	160,372.81
Miscellaneous Current Assets	570,058.12	Special Deposits by Company	4,304.08
Funded Debt	119,774,000.00	Reserve for Depreciation	40,946,269.03
Consumers' Deposits	727,861.42	Insurance Reserve	3,205,482.66
Taxes Accrued	10,996,335.74	Reserve for Retirement of Funded Debt (No offsetting fund)	3,927,300.00
Interest Accrued	1,999,310.00	Deferred Charges to Operation	1,349,212.00
Reserve for Service Annuity Fund deposited with Trustees	4,610,487.28		
Surplus	42,144,025.47		
Miscellaneous Unadjusted Credits	296,274.46		
Investment in New Era Subsidiary Corporation	34,401,100.00		

Under the terms of its 25-year franchise the company five years ago built a viaduct, title to which immediately vested in the city. This expenditure comprises the item, Deferred Charges to Operation, none of

which has yet been amortized. Plant and equipment costing $250,000 8 years ago has been depreciated at the annual rate of 5%. The company's engineers now advise a rate of 8% to be made effective from date of origin. During the past year an item of purchased goodwill of $500,000 was written off the books and it is now decided to restore it.

(a) Draft a pro-forma balance sheet, taking cognizance of all necessary adjustments. Follow any of the illustrative forms you deem appropriate.

(2) The J. M. Porgan Company, Inc., a manufacturing concern, was organized and began business in January, 19–. The following items are taken from the post-closing trial balance on December 31, 19–:

Sinking Fund Investment.	$ 2,500	Dividends Payable, Preferred Stock	$ 2,250
Cash on Hand	500	Reserve for Depreciation Buildings	5,000
Cash in Bank	28,000	Reserve for Depr. Deliv. Equip.	4,750
Accounts Receivable	85,000	Reserve for Depr. Machinery and Plant Equip.	5,000
Accounts Payable	55,000	Reserve for Depr. Office Equip.	1,550
Advances to Salesmen	1,500	Office Equipment	15,500
Raw Materials	65,000	Prepaid Radio Broadcasting	5,500
Goods in Process	25,000	Supplies on Hand	4,500
Finished Goods	45,000	Interest Accrued on Chattel Mortgage	250
Notes Payable	25,000	Reserve for Sinking Fund	2,500
Notes Receivable	35,000	Reserve for Sales Discounts	1,500
Temporary Investments	55,000	Capital Stock Common, par $100:	
Bonds Payable (due 1952)	50,000	Authorized 5,000 shares	
Prepaid Insurance	1,250	Treasury	50,000
Organization Expenses	4,000	Outstanding	300,000
Land, Railway Siding, and Driveway	100,000	Capital Stock Preferred, par $100:	
Building	125,000	Authorized 2,000 shares	
Taxes Accrued	2,500	Treasury	50,000
Delivery Equipment	19,000	Outstanding	150,000
Chattel Mortgage Payable	5,000	Goodwill	25,000
Machinery and Plant Equipment	50,000	Reserve for Market Fluctuations Temporary Investments	15,000
Notes Receivable Discounted	20,000	Capital Surplus	25,000
Interest Accrued on Notes Payable	500	Patents	16,500
Interest Accrued on Notes Receivable	750	Prepaid Interest	500
Income Accrued on Temporary Investment	1,250	Precollected Rent Income	100
Wages Accrued	1,500	Accrued Federal Taxes	4,500
Reserve for Doubtful Accounts	3,500		
Prepaid Advertising	3,000		
Dividends Payable, Common Stock	7,000		

(a) Determine the net profit for the year (the balancing figure for the above) and present a condensed balance sheet with supporting schedules.

3. The following data set forth the financial condition of the Rochester Manufacturing Corp. at July 1, 19–:

Plant building at appraised value	$150,000	Reserve for doubtful accounts	$ 12,320
Raw materials	22,340	Machinery and equipment	55,000
Cash in banks and on hand	43,760	Capital stock authorized	350,000
Notes receivable	3,050	Office furniture	8,715
Reserve for depreciation of building	22,315	Res. for depr. patents	5,000
Notes payable to affiliated company	30,000	Factory supplies	8,545
Work in process	42,310	Accrued Taxes	3,850
Unissued capital stock	15,000	Land	40,000
Surplus arising from appraisal of plant building.	40,610	Accrued royalties payable	1,480
Reserve for depr. office furn.	2,380	Delivery equipment	22,500
Accounts receivable trade	255,430	Shipping supplies	2,350
Accounts payable trade	123,770	Reserve for depreciation delivery equipment	4,500
Advances to affiliated company	28,000	Notes payable	20,000
Finished goods	95,080	Accrued interest payable	1,300
Accrued wages and salaries	8,650	Trade-marks	5,000
Prepaid insurance	1,760	Patterns and forms	23,700
Patents	26,000	Reserve for depr. of patterns and forms	8,200
Reserve for depr. mach'ry.	15,150	Mortgage payable	50,000
		Dividends payable, July 15, 19–	9,400
		Stationery and supplies	1,200
		Goodwill	25,000

(a) From the above data determine the amount of earned surplus and draft a condensed balance sheet with supporting schedules for plant and equipment, prepaid expense, and accrued expense. In the net worth section, indicate the investment of net worth as between working capital and plant and other capital.

4. The following were included under "Inventory" in balance sheet of Paul Thomas, manufacturer and dealer in automotive accessories.

Raw materials	$ 26,483	Material for repair of plant	$ 3,244
Advances for raw materials not yet received	850	Office supplies	2,385
Finished goods in factory	110,065	Advertising cuts and catalogs	1,625
Unexpired insurance	646	C.O.D. sales awaiting shipment, at selling price (cost $2,350)	3,475
Finished goods in hands of consignees	1,822	Gasoline and oil for trucks	658
Repair parts for machinery	792	Finished parts in factory	9,672
Goods in process	18,615	Samples held by automobile manufacturers, at selling price (cost $6,420)	3,690
Factory supplies	4,127	Small tools	5,320
Raw material scrap with a ready market (no by-products)	310		
Finished goods in store	46,814		

(a) Reclassify the items and show how they should appear on the balance sheet.

Assignment 3

1. The data below are from the books of Radio Manufacturing Co.

Inventories:	Dept. A	Dept. B
Raw Materials: Jan. 1	$ 15,491.70	$ 8,962.50
Dec. 31	11,497.88	12,786.33
Goods in Process: Jan. 1	45,515.25	54,861.92
Dec. 31	65,896.47	57,274.36
Finished Goods: Jan. 1	36,777.42	42,897.00
Dec. 31	38,970.00	45,362.22
Power Plant Fuel and Supplies: Jan. 1	3,500.00	3,500.00
Dec. 31	4,250.00	4,250.00
Manufacturing Supplies: Jan. 1	6,497.00	4,615.00
Dec. 31	4,110.00	5,305.00
Purchases of Raw Materials	569,781.25	648,322.90
In-Freight and Cartage	30,490.61	24,784.76
Purchase Returns—Raw Materials	12,490.00	7,834.67
Direct Labor	1,294,662.47	1,434,009.43
Sales	4,362,685.71	5,133,505.34
General Manufacturing Expense	78,041.69	95,384.29
Light and Power	21,884.45	32,862.67
Taxes on Factory	94,783.74	94,783.74
Insurance:		
Goods in Process	11,693.11	6,296.29
Machinery and Equipment	8,545.47	12,818.20
Buildings, Factory	3,909.60	3,909.61
Finished Goods stored in warehouse	12,606.15	12,606.00
Building Repairs Factory	3,336.57	7,785.33
Indirect Labor	56,606.04	69,185.16
Machinery Repairs	11,168.67	13,650.60
Depreciation:		
Machinery and Tools	17,754.06	26,631.10
Equipment, Factory	45,638.64	55,780.56
Buildings, Factory	11,509.95	17,264.93
Advertising	20,100.00	14,950.00
Sales Discount	60,450.00	68,110.00
Power Plant Fuel and Supplies used	14,302.16	21,453.24
Factory Superintendence	39,408.17	39,408.18
Manufacturing Supplies used	63,247.20	21,082.40
Out-Freight	18,512.60	15,304.00
Packaging Materials Expense	54,983.12	49,576.32
Sales Taxes	202,923.64	238,826.11
Freight on Returned Sales	12,326.59	14,803.11
Sales Returns	304,212.84	356,983.14
Delivery Expense	56,984.51	64,313.89
Salesmen's Salaries	204,312.19	300,002.13
Salesmen's Traveling Expense	146,982.12	153,934.15
Officers' Salaries	200,000.00	225,000.00
General Office Expense	154,893.34	159,563.21
Telephone, Telegraph, and Postage	26,946.43	27,832.12
Taxes, General	49,825.60	54,318.20
Stationery and Printing	17,834.19	16,212.14
Bad Debts	30,240.60	34,592.30
Interest Expense	32,849.76	35,439.26
Interest Income	21,726.93	25,948.67
Purchase Discount	13,932.28	16,012.20

(a) Prepare a condensed departmental profit and loss statement, supported by schedules.

2. You have been asked by Mr. Rex Cold who has kept an incomplete set of records, to prepare statements of his business as of December 31, 19–.

The following information, covering Cold's fiscal year, is collected from various sources.

	Jan. 1, 19–	Dec. 31, 19–
Notes receivable (customers)	$15,250	$18,000
Accounts receivable	36,500	35,350
Merchandise inventory	41,000	37,950
Accrued interest income	356	
Land	20,000	20,000
Prepaid insurance	610	
Building	49,000	49,000
Machinery	30,000	36,000
Office equipment	1,900	2,000
Notes payable (trade)	30,000	5,000
Accrued interest expense	750	
Accounts payable	27,500	39,500

In summarizing the cash book for the year, the following information is abstracted:

Receipts:		Disbursements:	
Bank Balance, Jan. 1, 19–..	$ 6,580	Creditors	$38,700
Customers	65,400	General expenses	8,800
Notes receivable	13,790	Wages	11,300
Interest	1,210	Interest on notes payable ..	1,600
Mr. Cold, additional capital	15,000	Purchase of new machinery	6,000
		Purchase of new office equipment	100
		Notes payable	30,000
		Mr. Cold, drawings	4,800

The appraised value of the fixed assets on December 31, is as follows: building $48,020; machinery $32,700; office equipment $1,805.

It is estimated that $1,800 of the accounts receivable will prove uncollectible. $10,000 of the accounts receivable have been pledged as security to a creditor on open account.

Interest has accrued on the following notes receivable:

R. G. Davis, $5,600, 2-month 6% note dated Nov. 15.
Yonker Bros., $8,000, 90-day 5% note dated Dec. 1.
L. F. O'Conner, $4,400, 30-day 6% note dated Dec. 21.

The notes payable account on December 31, 19– represents a 60-day 6% note given to a sundry creditor on December 11, 19–.

The prepaid insurance on January 1 represents policies for 3 years purchased for cash on that date and still fully in force.

Prepare the following:

(a) A classified comparative balance sheet as of the dates given.

(b) Statements of profit or loss: (1) by the comparative net worth method; (2) by double-entry method, deriving the necessary data from the facts given.

NOTE: Calculate interest on the basis of 360 days to the year. Each of the above interest rates is for a year.

3. The following data are taken from the books of Ryan, Bryan Brothers and Monterey, Accountants and Auditors, for the period January 1, 19– to December 31, 19–:

Accountants' salaries, chargeable to clients ..	$108,064.32	Miscellaneous general expense	$ 7,586.94
Bad debts	1,250.00	Non-chargeable and unassigned salaries	7,359.75
Contributions to charity.	5,000.00	Postage	2,456.62
Correspondence and mailing	5,849.00	Rent	6,000.00
Depreciation	2,324.52	Report department salaries	19,874.52
Fees for professional services	275,897.00	Stationery, printing and binders	4,736.38
General salaries	23,240.00	Telephone and telegraph	4,065.26
Gratuitous work	1,000.00	Traveling expense and subsistence—general ..	12,759.60
Interest and dividends from investments	2,250.00	Depreciation of investments	5,600.00
Professional library expense for salaries, magazines, etc.	5,618.45		

Salaries of accountants, assigned, non-chargeable and unassigned, and of the report staff are to be considered as a direct cost of earnings.

(a) Prepare a statement of profit and loss for the period.

4. Kimberly & Loughlin act as agents for property owners in the management of rental properties, renting apartments, collecting rents, and paying the operating expenses of buildings under their management. Management commissions charged are 7% of the rentals collected. Monthly settlements are made with the owners, at which time all collections net of expenses are turned over to the owners, excepting $200 which is retained as a working fund for the next month. In accounting for each property, 3 accounts are kept on the general ledger, viz.: (1) a cash or bank account; (2) an open account with each owner; and (3) a control account over a subsidiary ledger for each property, in which are carried the detailed operating expenses and the tenants' accounts.

The agents also buy, sell, and operate property on their own account. They share profits and losses equally.

The trial balances of the general and subsidiary ledgers for the 3 months ending March 31, 19– and before the March settlements with owners, are as follows:

GENERAL LEDGER TRIAL BALANCE

March 31, 19—

General Cash—City Trust Co.	$ 4,623.45	
Accounts Receivable	18,120.50	
Mortgage Receivable	6,100.00	
Lots, 460–478 Halliday Road	10,650.00	
Lots, Bel-Air Tract	10,350.00	
Furniture and Fixtures	850.00	
Notes Payable Bank		$10,000.00
Accounts Payable		7,980.25
G. V. Kimberly, Capital		15,689.31
G. V. Kimberly, Personal	450.00	
L. H. Loughlin, Capital		14,140.36
L. H. Loughlin, Personal	400.00	
Management Income		2,692.10
Interest Income		314.55
Other Income		82.70
Commissions from Sale of Property for Others		1,800.00
Profit on Sale of Own Property		2,912.48
Office Salaries	788.70	
Rent Expense	1,340.00	
Office Expense	575.00	
Property Taxes	952.50	
Interest Expense	316.75	
Other Expense	94.85	
First Nat'l Bank—2264 West Ave Ap'ts.	2,771.45	
Due to Owner—2264 West Ave. Ap'ts		4,125.10
2264 West Ave. Ap'ts Control	1,353.65	
Second National Bank—Astor Apartments	1,576.95	
Due to Owners—Astor Apartments		2,175.00
Astor Apartments Control	598.05	
	$61,911.85	$61,911.85

TRIAL BALANCE OF NO. 2264 WEST AVE. APARTMENTS LEDGER

March 31, 19—

Due from Tenants	$ 775.10	
General Ledger		$1,353.65
Coal	82.50	
Telephone	110.70	
Plumbing	13.60	
Wages	250.00	
Repairs	41.25	
Other Expenses	80.50	
	$1,353.65	$1,353.65

TRIAL BALANCE OF ASTOR APARTMENTS LEDGER

March 31, 19—

Due from Tenants	$290.00	
Coal	54.35	
Plumbing	31.40	
Wages	145.00	
Repairs	62.80	
Other Expenses	14.50	
General Ledger		$598.05
	$598.05	$598.05

Settlements for the month of March are now made with the owners of the West Ave. and Astor apartments. An analysis of the accounts shows that West Ave. tenants were charged $3,425.10 and paid during March $3,150, and Astor tenants' charges and payments were respectively $2,025 and $1,685.

Accruals, prepayments, and depreciation on March 31 are as follows:

Office salaries accrued.....	$ 48.50	Property taxes prepaid.....	$235.00
Interest expense accrued....	32.00	Rent prepaid	300.00
Interest income accrued.....	120.00	Office supplies on hand.....	62.50

Depreciation of furniture and fixtures is at the rate of 10% per year.

(a) Prepare a statement of account for each owner to show the following information:

(1) Unpaid balance on March 1.
(2) March rents levied against tenants.
(3) Operating expenses and management fees paid for March.
(4) Payments made to owner on March 31, as instructed above.
(5) Balance due owner on March 31, consisting of $200 cash in bank and uncollected rents.

(b) Draft journal entries for both general and subsidiary ledgers to record settlement with owners.

(c) Draft balance sheet and profit and loss statement for the partnership.

NOTE: To understand the operation of subsidiary ledgers, the student should work out the methods of recording: (1) rents levied against tenants; (2) collection of rents; (3) payment of expenses for owner; and (4) remittances to owner.

Assignment 4

1. The following is the trial balance of the general ledger of Curran Manufacturing Co. on July 31, 19–, the end of its first fiscal year:

Cash on Deposit.....	$ 19,000	
Petty Cash	250	
Accounts Receivable	48,000	
Land	30,000	
Buildings	71,854	
Machinery and Equipment	35,000	
Salesroom Furniture and Fixtures.....	8,000	
Office Furniture and Fixtures.....	7,000	
Delivery Equipment	14,000	
Notes Payable		$ 10,000
Accounts Payable		13,000
Bonds Payable 6%.....		60,000
Capital Stock Common		100,000
Surplus		48,250
Sales		535,802
Sales Returns and Allowances.....	26,500	
Raw Materials Purchases.....	125,780	

Freight-In on Purchases	3,688	
Direct Labor	97,760	
Indirect Labor	57,800	
Factory Supervision Salaries	43,750	
Factory Supplies	4,650	
Machinery Repairs	1,570	
Light and Heat	3,635	
Power	4,350	
Sundry Factory Expenses	3,750	
Salesmen's Salaries	51,000	
Salesmen's Traveling Expenses	10,800	
Advertising	25,000	
Delivery Expenses	9,500	
Office Salaries	5,000	
Officers' Salaries	46,000	
Office Expenses	8,050	
Stationery and Printing	600	
Postage	400	
Telephone and Telegraph	500	
Insurance	1,300	
Taxes	1,250	
Interest Expense	600	
Interest on Bonds Payable	2,400	
Sales Discount	4,800	
Purchases Discount		6,485
	$773,537	$773,537

The bonds were issued September 1 of the previous year at par and accrued interest, the interest dates being May 1 and November 1. The following items are to be considered in closing the books:

Raw materials inventory	$12,570	Direct labor accrued	$ 1,000
Goods in process inventory	4,150	Indirect labor accrued	600
Finished goods inventory	31,425	Factory superv'n sal. accrued	400
Factory supplies inventory	550	Salesmen's salaries accrued	550
Stationery and printing inventory	50	Office salaries accrued	50
Insurance unexpired	500	Interest on notes payable accrued	50

Depreciation is to be computed at the following rates:

Building	4%	Salesroom Furn. and Fix.	10%
Machinery and Equip.	6%	Office Furn. and Fix.	10%
Delivery Equipment	10%		

Bad debts are estimated as 1% of net sales.

Advertising cost of $15,000 represented national advertising conservatively estimated to benefit the company for the next 3 years.

Purchase commitments effective on March 15 amount to $15,700 covering raw materials to be delivered in 2 instalments in August and September. On July 31, the market price of these raw materials had decreased 5%.

(a) Prepare work sheet, based on the following expense allocations:

	Manufacturing	Selling	General
Light and heat	40%	30%	30%
Officers' salaries	$9,000	$9,000	$28,000
Insurance cost	50%	25%	25%
Taxes	50%	25%	25%
Depreciation of buildings	70%	15%	15%

(b) Draft balance sheet.

(c) Draft statement of profit and loss.

2. The Prosperity Manufacturing Corporation purchased the plant and equipment of a competitor for the lump sum of $242,000. To secure a basis for establishing the values of individual units, an appraisal was made with the following results:

	Present Cost of Reproduction	Depreciation Accrued on Reproduction Cost	Net Appraised Value
Land	$ 25,000		$ 25,000
Factory building	95,000	$ 15,000	80,000
Machinery and equipment	220,000	60,000	160,000
Office building	25,000	5,000	20,000
Delivery equip.	25,000	16,000	9,000
Furniture and fixt.	10,000	4,000	6,000
	$400,000	$100,000	$300,000

Due to duplication of facilities, the corporation immediately reduced to a scrap value of $2,000 machinery and equipment appraised at $30,000.

(a) Determine for purposes of record the gross cost, accrued depreciation, and net cost of each of the above assets.

3. To provide for an additional plant, the Hilltop Company on May 1 purchased for $13,500 cash a plot of land slightly improved. The cost of removing an old building was $1,050 and other impedimenta $100. From the sale of reclaimed lumber, plumbing fixtures, etc., $150 was realized.

Architect's plans and specifications for the new plant cost $500 and supervisory fees were 5% of the contractor's bid of $50,000 plus extras of $3,000. The company paid $850 for new sidewalk and $250 for accrued taxes due when the land was bought.

To finance the cost of the new plant, the company executed on May 1 a 5% 5-year mortgage for $45,000 which was sold for $42,000. Mortgage interest was payable May 1 and November 1. The building was completed on December 1 of the same year.

(a) Draft journal entries properly to record all of the above transactions.

4. The following data are taken from the records of the Arugood Company:

Bonus paid March 1, to obtain lease of building for 5 years beginning April 30, $5,000. Rent paid on April 30, 6 months in advance $2,500.

Subrental income for 2 months in advance due from the A. B. Company for lease from June 1, $800. Cost of moving on April 30 to present location, $12,000.

Insurance premium covering stock for 1 year cost April 30, $600. A policy for 3 years required to be carried on the building cost April 30, $1,260.

The company holds for investment 3 $1,000 6% bonds, interest June 1 and December 1. It also holds a customer's note on which interest of $15 was prepaid on June 1 for 60 days.

The company owns stocks on which a dividend of $500 was declared June 1, payable on July 1. It also owns preferred stocks on which the accumulated dividends—not yet declared—amount to $300.

The company on June 30, 5 years ago, put out a bond issue running for 10 years. The bonds were sold at a discount of $5,746, none of which has as yet been amortized. (Use straight-line method.)

For a mail sales campaign to be run in July, the company bought on June 1 for $5,000 a list of names. The life of the list is conservatively estimated as 3 years.

Supply inventories on hand on June 30 were: office stationery $684; fuel and lubricants $1,210; and factory supplies $4,846.

(a) Draft balance sheet schedules covering prepaid expenses and accrued income, effective as of June 30, 19–.

Assignment 5

1. The Collins Clothing Co. operates a retail clothing store for men and women. A trial balance of its general ledger on January 31, the end of its fiscal year, shows the following account balances:

City National Bank	$ 28,970.21	
Chase Trust Company	3,940.50	
Store Change Funds	2,350.00	
Petty Cash Fund	1,000.00	
Accounts Receivable, Customers	89,614.05	
Reserve for Uncollectible Accounts		$ 1,620.36
Loans to Employees	850.00	
Inventory, Men's Dept., Feb. 1, 19–	50,113.68	
Inventory, Women's Dept., Feb. 1, 19–	96,744.03	
Uncollected C.O.D. Sales	360.50	
Store Furniture and Fixtures	43,210.50	
Depr. Reserve Store Furn. and Fix.		10,212.46
Depr. Reserve Office Equipment		822.60
Office Equipment	3,406.85	
Delivery Equipment	1,645.10	
Depr. Reserve Delivery Equip.		512.46
Leasehold	116,071.43	
Organization Expense	3,480.00	
Prepayments on Purchases	4,570.00	
Vouchers Payable		104,002.22
Notes Payable to Bank		75,000.00

Authorized No-Par Common Capital Stock 6,000 shares at stated value		150,000.00
Treasury Stock, 720 shares at stated value	18,000.00	
Unissued Stock, 1,280 shares	32,000.00	
Paid-in Surplus		25,000.00
Earned Surplus		61,197.42
Sales Men's Dept.		520,116.76
Sales Women's Dept.		639,784.06
Returned Sales, Men's Dept.	17,312.90	
Returned Sales, Women's Dept.	63,740.25	
Purchases, Men's Dept.	407,827.10	
Purchases, Women's Dept.	452,624.79	
Returned Purchases, Men's Dept.		20,714.62
Returned Purchases, Women's Dept.		33,812.40
Buying Expenses, Men's Dept.	15,340.50	
Buying Expenses, Women's Dept.	23,040.70	
Transportation Inward	14,390.24	
Selling Wages and Salaries	55,620.15	
Sundry Selling Expense	4,020.16	
Advertising	26,314.95	
Delivery Expense	7,690.12	
Selling Commissions	12,040.60	
Warehouse Expense	3,069.25	
Purchase Discounts		15,820.62
Office Salaries	14,320.60	
Insurance	2,895.04	
Rent, Store	28,650.00	
Rent, Warehouse	2,100.00	
Light, Heat, and Power	1,340.67	
Interest Expense	2,821.39	
Interest Income		955.12
Telephone and Telegraph	1,285.44	
Sundry Office Expense	762.90	
Collection Expense	2,461.50	
Legal and Auditing Fees	3,575.00	
	$1,659,571.10	$1,659,571.10

The statement of account of even date from the City National Bank shows a balance, the amount of which you are to compute from the following information:

The company finds the following checks outstanding:

#4840.....	$180.43	#4880.....	$356.52	#4889.....	$1,876.78
4865.....	455.99	4881.....	451.23	4893.....	449.30
4874.....	305.65	4887.....	230.70	Total.....	$4,306.60

The statement also shows interest credits of $41.85 on daily balances, charges for federal check taxes of $9.42, but shows no credit for the company's last deposit of $1,060.45. With the statement there is returned as uncollectible a customer's check for $81.50. Upon comparing returned vouchers with his cash book, the bookkeeper discovers that a check for $456.90 had been entered in the cash book as $465.90.

The Chase Trust Co. account is inactive, the balance shown agreeing with the bank statement.

Audit of the petty cash fund shows as follows:

Bills and currency	$569.27	Expense vouchers covering:	
Postage stamps	14.23	Delivery expense	$ 67.80
Employee's check dated Jan. 30	75.00	Office supplies	35.95
I.O.U. of employee dated June 10	100.00	Late office work supper expense	137.75

Inventories are:

Merchandise:	Men's Dept.	Women's Dept.	Supplies:	
Store	$41,385.25	$84,129.90	Gasoline and oil	$165.40
Warehouse	14,243.65	21,465.70	Wrapping paper, boxes, etc.	546.75
Receiving Room	2,327.10	3,080.50	Office supplies	215.40

Inward transportation charges, warehouse expenses, and rent, warehouse are to be allocated to the two depts. on basis of total net purchases.

Accruals are: selling wages $480.30; chauffeurs' wages $58.40; and office salaries $122.50. The notes payable represent one note for 180 days dated September 15 and discounted at bank on that date at 5%. The prepaid discount on the note is to be computed for the actual number of days on the basis of 365 days to the year.

It is estimated that 2½% of outstanding customers' accounts will prove uncollectible.

Depreciation is to be provided on a straight-line basis at the following annual rates: store and office equipment 10%; delivery equip. 25%.

The leasehold cost $125,000, runs for 42 years, and the current year's write-off is to be provided on a straight-line basis.

Organization expense is being amortized over 5 years. The balance shown is after 3 annual write-offs.

On January 31, the directors declare an $8 per share cash dividend, payable on February 20, to holders of record on February 10.

(a) Compute the bank and true cash balances, using the form of the usual reconciliation statement.

(b) Draft balance sheet and departmental profit and loss statements for the year.

2. The accounts receivable were stated at $439,535 in a balance sheet submitted to a banker for credit. Upon analysis that asset was found to consist of the following items:

Due from customers on open account	$361,500
Acknowledged claim for damages, St. Louis & Western Ry	845
Due from consignees, at billed price—cost price being $1,150	1,620
Investment in and advances to affiliated company	46,500
Loans to officers and employees	4,360
Deposit with municipalities—bids for contracts	8,750
Unpaid capital stock subscriptions	13,000
Advances to creditors for merchandise purchased but not yet rec'd	2,310
Cash advanced to salesmen for traveling expenses	650
	$439,535

The amount of $361,500 due from customers was the remainder after deducting accounts with credit balances of $4,285.

During the bankers' examination it was disclosed that the company had one month previously discounted $150,000 of customers' accounts, the only record made being a debit to cash and a credit to the discount company, which had advanced 80% of the face of the accounts. A commission charge of $1,875 had been paid and deducted from the cash received under a further agreement to pay interest at 6% per annum at the time of each monthly settlement, the first being now at hand. This month's statement of account shows that $75,000 of the accounts had been collected and one for $5,000 had been charged back as uncollectible due to bankruptcy of customer. The statement also shows interest of $450 charged the borrower on daily balances.

(a) Draft such journal entries as you deem necessary properly to reflect all transactions needing adjustment.

(b) Show all of the above items properly reflected on the balance sheet.

NOTE: Transfer from Margin account to Due from Discount Co. the portion of the margin entering into the monthly settlement. Credit the latter account with interest on daily balances and also with the $4,000 advance made on the uncollectible account.

3. On June 30, the cash book of F. G. Wellman showed a cash balance of $9,381.55. On July 2, Wellman received from the bank his statement for the month ending June 30, which showed a credit of $12.17 for interest on daily balances. The statement also showed that on June 29, Wellman's account had been credited with $20, representing a deposited check of A. B. Johnson, a customer. The correct amount of the check was later found to be $30 and the bank statement showed the necessary correction. On his books Wellman had made the same mistake but had not yet discovered it.

The bank statement also showed Wellman's deposit account charged on June 30 with an item of $512.60, representing an uncollectible check from a customer. A second charge made by the bank was for a protest fee of $2.36 on a note for $2,500 which Wellman had left with the bank for collection. The note was dated March 29, matured on June 27, with interest at the rate of 6% per annum on the basis of 360 days to the year.

On comparing the returned checks with his cash disbursement record, Wellman found that he had failed to record a check of $50 issued to replenish the petty cash fund. The cashier of the fund had submitted the following voucher on June 30: postage $25, telegrams $15, donations $15, salesmen's expenses $25, freight paid on merchandise received $20. At the same time the cashier requested that the petty cash fund be reduced from $250 to $200.

Wellman also found that he had entered check No. 812 for $387 in his cash disbursements record as $378.

The following checks were outstanding on June 30:

No. 825.....	$295.50	No. 830.....	$ 52.16
828.....	732.85	831.....	12.19
829.....	155.44	833.....	355.81

Among the cancelled vouchers returned by the bank was a memo that a customer's note for $1,000, which Wellman had discounted, had been paid in full by the maker.

(a) Draft a bank reconciliation statement.
(b) Draft journal entries necessary to adjust the books.

4. Below are given transcripts of three accounts with customers. Terms of sale to B. Trumbull and T. Jacie were "net 30 days," and to E. Blinkert, 2/10, n/30:

CHARGES

B. Trumbull		T. Jacie		E. Blinkert	
Date	Amount	Date	Amount	Date	Amount
Apr. 6.....	$342.78	Apr. 6.....	$375.00	Apr. 10.....	$340.20
16.....	159.85	13.....	682.50	26.....	125.00
29.....	632.51	19.....	108.95	30.....	120.00
May 6.....	478.87	30.....	162.50	May 10.....	540.23
19.....	225.00	May 8.....	279.00	19.....	425.00
27.....	639.00	17.....	185.00	26.....	775.50
June 4.....	404.00	28.....	200.00	June 3.....	819.37
14.....	215.97	June 8.....	945.00	13.....	395.62
23.....	243.54	17.....	490.00	25.....	521.67
30.....	119.27	20.....	275.00	30.....	480.22
July 3.....	200.00	28.....	75.00		

CREDITS

May 5	Cash ..	$1,000.00	Apr. 14	Ret. ..	$ 58.90
9	Ret. ..	52.50	May 2	Cash .	1,250.00
June 5	Cash ..	1,200.00	12	Ret. ..	22.50
11	Ret. ..	37.25	June 2	Ret. .	71.40
July 7	Cash ..	750.00	11	Ret. ..	146.50
			July 7	Cash .	1,500.00

Apr. 14	Ret. ..	$ 67.50			
16	Cash..	200.00			
May 13	Cash..	400.00			
22	Ret. ..	49.59			
June 6	Cash .	1,000.00			
17	Ret. .	39.37			
26	Cash .	2,300.00			

(a) Determine the condition of each account as to delinquency on July 1.

Assignment 6

1. As controller of the J. B. Sax Co., a trading business, it is your duty to prepare an estimate of business operations for the coming year. This estimate is prepared on December 31 after all the nominal accounts have been closed, and is to consist of an estimated profit and loss statement and an estimated balance sheet.

The expected volume of business has been calculated after a careful survey of market conditions and the estimated operating costs have been based on an average of the expenses of the past 5 years.

The post-closing trial balance on December 31, 1932, is as follows:

Cash in Bank	$ 23,500	
Petty Cash	200	
Prepayment on Purchases	9,000	
Trade Accounts Receivable	85,000	
Reserve for Doubtful Accounts		$ 1,700
Reserve for Sales Discounts		1,950
Merchandise Inventory	48,000	
Temporary Investments	40,000	
Prepaid Insurance	600	
Office Supplies on Hand	150	
Land	45,000	
Building	60,000	
Depreciation Reserve Building		18,000
Store Furniture and Fixtures	15,000	
Depreciation Reserve Store Furn. and Fix.		9,000
Office Furniture and Fixtures	8,200	
Depreciation Reserve Office Furn. and Fix.		4,920
Delivery Equipment	12,000	
Depreciation Reserve Delivery Equipment		4,800
Goodwill	22,000	
Trade Accounts Payable		27,567
Accrued Salesmen's Salaries		1,500
Accrued Taxes		2,000
5% Mortgage Payable, Int. Payable Dec. 31 and June 30		50,000
7% Cumulative, Participating Preferred Stock ($100 par value)		50,000
Common Stock, 1,600 shares par $100 each		160,000
Surplus		37,213
	$368,650	$368,650

The following information must be taken into consideration in preparing your estimates:

(1) The rate of merchandise turnover to be used is 8, based on the opening inventory. In computing the cost—i.e., the dollar volume—of purchases, it will be necessary to take into account an estimated 10% decline in wholesale prices applicable throughout the entire year. It is planned to have a final inventory of $45,000. The purchase returns average 1.03% of gross purchases. The cost of estimated purchases computed on the above basis includes the cost of inward carrying charges, which are considered as 3% of the full cost of such purchases. Terms of credit on purchases are 3/10, n/60 of which the company expects to take advantage. (To compute the cost of purchases, use the cost of goods sold formula, the cost of goods sold being computed by using the turnover rate given and by reducing the amount so determined by 10% to give effect to lower price levels. From the estimated purchases so determined, the items of inward freight, purchase returns, and gross purchases may be computed. To estimate the outstanding accounts payable at the end of the year, it will be assumed that purchases are made uniformly throughout the year. Hence, divide net

purchases by 365 to compute average one day's purchase. The last 10 days' purchases are outstanding.)

(2) The average gross profit is 40% of net sales and sales returns and allowances are 3% of gross sales. Terms of sale are 2/10, n/30 of which customers take advantage to the extent of 55% of the sales, the remaining 45% being outstanding 46 days. It is estimated that of the year's net sales 8% occur in November and 14% in December. (To estimate the outstanding accounts receivable at the end of the year, it will be assumed that none of the sales of the last 10 days of December have been collected. To find the amount of such sales, compute the December sales, divide by 31—to find 1 day's sales—and multiply by 10. Accounts outstanding 46 days arise in December and the last 15 days of November, i.e., beginning with November 16 and running through December 21, the balance of December sales being not yet due. Of the sales for this period—November 16 to December 21, both inclusive—only 45% are outstanding.)

(3) Estimated costs of operation are based on the following data:

Out of each net sales dollar, it is estimated that selling expenses will consume 18 cents, general administrative expenses 13 cents, financial expenses 3 cents, and the financial income is equivalent to 2 cents. Depreciation and bad debts are included in the above figures.

The following items comprise the expense groups and are stated in the form of percentages of the total group expense:

✓The selling expense group includes: freight-out 3.99%, salesmen's salaries 63.99%, miscellaneous selling expense 2.07%, advertising 15%, delivery expenses 10%, depreciation of delivery equipment 2.32%, depreciation of store furniture and fixtures 1.44%, depreciation of building 1.19%.

✓The general administrative group consists of: office salaries 35.27%, officers' salaries 25%, miscellaneous office expense 11.3%, legal expense 5%, telephone and telegraph 2%, postage 8%, taxes 6.53%, insurance 5%, depreciation of office furniture and fixtures 1.1%, depreciation of building 0.8%.

✓ The financial management expense includes: sales discounts 36.667%, bad debts 33.333%, interest on mortgage payable 14.47%, collection and exchange 1.3%, and credit department 14.23%.

✓ The financial management income group includes: purchase discounts 91.35% and dividend from temporary investments 8.65%.

(4) To be taken into consideration also are the following data:

✓On December 31, 1933, the company expects to retire three-fifths of its outstanding mortgage. It is planned to distribute a 15% dividend on each class of stock during the year.

✓ A contract has been entered into to remodel the building front at a cost of $6,600. Work is to be commenced October 1 and completed on November 1. The depreciation of this improvement is included in the depreciation expense mentioned above.

An order has been placed for new office equipment costing $40, delivery to be made during first week in January, 1933. Its estimated life is 10 years.

A showcase costing $70 with no scrap value and fully depreciated is to be scrapped during first week in January, 1933.

The passenger car owned by the business and used by the sales manager is to be converted into a truck on December 1, 1933, at a cost of $300. This cost is to be capitalized. The depreciation of car including the improvement is considered in the above depreciation charges.

The prepayment on purchases is an advance on merchandise to be delivered in February, 1933.

The prepaid insurance, office supplies on hand, accrued taxes and accrued salaries are approximately the same each year. It is estimated that a balance of $2,500 in the reserve for doubtful accounts on December 31, 1933, will be sufficient to carry over into the next year. Accordingly, an adjustment between accounts receivable and the reserve will be made to bring about that balance.

Sales discounts are charged to the period making the sales, whereas purchase discounts are credited to the period in which they are received.

(a) Prepare an estimate of merchandise purchases—a buying quota—for the coming year.

(b) Prepare an estimate of sales—gross and net.

(c) Prepare an estimate of outstanding accounts receivable at December 31.

(d) Prepare an estimate of outstanding accounts payable at December 31.

(e) Prepare an estimate of cash receipts for the year.

(f) Prepare an estimate of cash disbursements for the year.

(g) Prepare an estimated profit and loss statement for the year.

(h) Prepare an estimated balance sheet as of December 31, 1933.

[The student should review pages 610–616 of Kester, *Principles of Accounting,* (Accounting Theory and Practice, Vol. I) for suggestions in the solution of this problem. All computations must be shown. All estimated amounts are to be expressed in even dollars, fifty cents or more being counted as an additional dollar. The required profit and loss statement may be prepared after requirement (b) has been determined.]

This solution is to be preserved for use in Problem 1, Assignment 9.

2. At the end of its first year of operations the Superior Radio Company had a stock of radios and radio accessories on hand which cost $28,538.42. The net cash-realizable value of this stock was $42,500. Its opening inventory—a part of the original investment—at cost was $25,000; sales for the year were $195,000, purchases $140,000, and operating expenses $55,000.

(a) Draft journal entries to adjust and close the books.

(b) Set up profit and loss statement for the year.

3. At the end of its second year, the Superior Radio Company—see Problem 2 above—valued its inventory at cost $47,397.90 and at net cash-realizable value $40,350. Its sales for the year were $250,000, its purchases $205,000, and operating expenses $60,000.

(a) Draft journal entries to adjust and close the books.
(b) Set up profit and loss statement for the year.
(c) Show the item merchandise on the balance sheet.

4. In a retail store the original inventory on January 31, 19– was $30,000 valued at cost, the mark-up being 50% based on cost. Purchases for the period were $400,000 at cost, retail being $575,000. Freight-in amounted to $15,000; additional mark-ups during the year $30,000; mark-downs $25,000; and sales $485,000. Using the retail inventory form on page 154, determine:

(a) The inventory at July 31, at cost.
(b) The cost of merchandise sold.

Assignment 7

1. The Omega Sales Co., Inc. keeps only a cash journal and a general ledger. The entries in the cash journal for the year ended December 31, 19–, are as follows:

Cash Receipts:		Cash Payments:	
Balance at Jan. 1, 19—.	$ 10,000.00	Paid on accounts payable	$ 73,287.16
Received from Customers	137,462.12	Salaries	22,168.12
Interest received	140.00	Rent	3,600.00
Capital stock issued (200 shares)	20,000.00	Insurance	214.26
Rental income	600.00	Furniture and Fix. (July 1, 19—)	87.00
Sales of 4 $1,000 Alpha Co. bonds at $900 each, plus 4 months accrued interest	3,680.00	Commissions	268.12
Sales of 100 shares common stock of the Beta Corp. at 27 (par $100)	2,700.00	Traveling expenses	764.19
Sale of equip. in Jan., 19— (cost $400)	150.00	Bought 1,000 shares common stock of the Nu Co. (par $100)	52,000.00
Corporation's own note discounted at bank—face of note $5,000	4,925.00	Bought 500 shares common stock of Gamma Co., Inc. (par $50)	17,795.30
		Bought 2 $1,000 bonds of the Delta Railway at $996 each, plus accrued interest for 1 month	2,002.00
		Stationery and printing.	114.92
		Light and Heat	142.16
		Taxes	137.16
		Advertising	250.00
		Loan to officer	100.00
		Refunds to customers	746.18
		Freight-out	263.10
		Freight-in	147.16
		General admin. expenses	1,416.84
		Telephone and telegraph.	274.22
Total	$179.657.12	Total	$175,777.89

You are called in at the end of the year to prepare a balance sheet and profit and loss statement for the year. Your investigation reveals the following additional facts:

Accounts payable, Jan. 1	$ 9,762.18	All petty cash checks have been charged to general administrative expense.	
Merchandise inventory, Jan. 1	47,287.16	Bonds, Jan. 1—4 Alpha Co. 6's, cost	$ 3,500.00
Merchandise inventory, Dec. 31	26,114.18	Stocks, Jan. 1, 500 shares Beta Corp., cost	11,500.00
Accounts receivable, Jan. 1	17,218.63	Stationery supplies on hand, Jan. 1	50.16
Accounts receivable, Dec. 31	21,417.27	Stationery supplies on hand, Dec. 31	16.24
Capital stock outstanding, Jan. 1	80,000.00	Unexpired insurance, Jan. 1	67.14
Accounts payable, Dec. 31	12,927.26	Unexpired insurance, Dec. 31	52.24
Furniture and equipment, Jan. 1—purchased 4 years previously, estimated life 10 years, no depreciation recorded	3,000.00	Interest income accrued on bonds, Jan. 1	60.00
Petty cash fund, Jan. 1	127.14	Prepaid int. exp., 12/31	25.00
Petty cash fund, Dec. 31	116.32		

On December 15, the stock of the Gamma Co., Inc. received rights carrying the privilege of purchasing ½ share of its convertible preferred stock at par ($50). On the date the stock sold ex-rights the market price of stock was $63 and that of the rights was $9 each. On December 31, these rights were sold at $10 each, the cash to be collected January 2 following.

Interest income was accrued on December 31 on Delta Ry. Bonds for 3 months. During the year the company had purchased some advertising circulars for mailing and had bought a list of names, both costing $300. On December 31, one half of the circulars had been mailed at the cost of $60 and the other half was still on hand. The cost of the list and of mailing were included in the general administrative expenses.

On December 18, a customer reported that merchandise which had been shipped and billed to him at $500 had never reached him. The corporation replaced the merchandise and immediately filed a claim against the railroad for $310, the cost of replacement.

(a) Draft a profit and loss statement for the year.

(b) Draft a comparative balance sheet as of January 1 and December 31.

2. On February 1, Stravinski, O'Clanahan, & Riley, lawyers, purchased the following securities as a temporary investment:

Bonds:

2 X. Y. Railway 6½'s (par $1,000) at 98 and accrued interest, interest payable June 1 and Dec. 1.

1 R. K. Service Co. 6's (par $1,000) at 110 and accrued interest, interest payable March 1 and Sept. 1.

Stocks:
10 shares A. Co. 7% cumulative participating preferred (par $100) at 96.
10 shares B. Co. 6% non-cumulative preferred (par $100) at 105.
100 shares C. Co. common (par $50) at 39.

The bonds were paid for in cash and deposited as collateral with a broker who supplied the funds for the purchase of the stock. The account was closed on July 10, whereupon the firm paid the balance due and the broker surrendered the bonds and stocks. Brokerage fees amounted to $17.50 and interest cost was $155.22. Broker remits all interest collections direct to partners instead of crediting their accounts.

During the year the following income was received from these investments:

March 1, interest on R. K. Service Co. bond	$30	Sept. 1, interest on R. K. Service Co. bond	$30
June 1, interest on X. Y. Railway bonds	65	Dec. 1, interest on X. Y. Railway bonds	65
July 30, dividend on A. Co. stock	35	Dec. 31, dividend on B. Co stock	60

On December 31, the market prices of these securities were:

X. Y. Railway bonds	$ 995	B. Company stock	$99
R. K. Service Co. bonds	1,015	C. Company stock	26
A. Company stock	103		

On January 2 all the securities were sold at December 31 prices and accrued interest. Brokers' commission of $27.50 was charged on the sale of the securities.

(a) Prepare journal entries to record the purchase of the securities and receipt of the income.

(b) Draft the journal entries necessary to reflect the market values of December 31 on the books.

(c) Show how all of the accounts relating to the temporary investments would appear on the balance sheet at December 31.

(d) Prepare journal entries to record the sale of the securities on January 2.

NOTE: Disregard the transfer tax. Base all interest calculations on 360 days to the year and 30 days to the month.

3. Charles Rowe's transactions in a certain common stock were as follows:

Jan. 1, 1932, bought 200 shares at $150 each.
July 1, 1932, received 200 rights, each of which carried the privilege of buying ¼ share at $100 per share. Market values at July 1, 1932, were, stock $190, and rights $25.
July 15, 1932, sold 52 rights at $35 each.
Sept. 15, 1932, exercised 148 rights.
Dec. 31, 1932, the market value of each share was $115.
June 1, 1933, all stock owned was surrendered and two shares of no-par stock were received for each share surrendered.
Oct. 1, 1933, sold 100 shares at $55 each.

(a) Compute the net profit or loss resulting from the sale of the rights and the sale of the 100 shares.

(b) Prepare journal entries for all of the above transactions.

(c) At what amount will the shares appear on the balance sheet at December 31, 1933, if the market value of the stock on that date is $60 per share?

NOTE: Disregard commissions and transfer taxes in solving this problem.

4. On the balance sheet submitted to his bank, James Larson, a manufacturer of furniture, showed the following items in one amount under the title, Inventories:

Raw materials on hand	$15,462	Finished goods out on consignment	$5,614
Factory supplies unused	7,874	Prepaid insurance	116
Advertising—cuts and plates	1,287	Advances on raw materials not yet received	2,000
Building materials for plant	4,242	C.O.D. sales awaiting shipment—at selling price (cost $2,300)	3,600
Goods in process	12,762	Raw materials scrap—cash realizable value	864
Goods in stock on consignments-in	4,287		
Finished goods in factory	1,214		
Office supplies unused	967		
Repair parts for equipment	1,214		
Finished goods in store	19,287		

(a) Reclassify the items and indicate their proper places on the balance sheet.

Assignment 8

1. The following trial balance has been taken from the books of the Phi Mercantile Company, Inc., at December 31, 1933:

Cash on Deposit and on Hand	$ 18,089.73	
Accounts Receivable	23,246.00	
Notes Receivable	5,187.00	
Office Furn. and Fix.	3,000.00	
Depreciation Reserve Office Furn. and Fix.		$ 900.00
Merchandise Inventory, Jan. 1	45,000.00	
Temporary Investments	21,600.00	
Salesroom Furn. and Fix.	7,580.00	
Depreciation Reserve Salesroom Furn. and Fix.		2,300.00
Accounts Payable		10,247.00
Notes Payable		3,162.00
Bonds Payable, 6%		100,000.00
Capital Stock		220,000.00
Surplus		22,618.00
Land	50,000.00	
Building	200,000.00	
Depreciation Reserve Building		4,000.00
Sales, Net		148,482.00
Purchases, Net	70,286.00	
Interest Income		242.33
Dividend Income		200.00
Office Salaries	3,120.00	
Officers' Salaries	20,800.00	

Salesmen's Salaries	9,000.00	
Salesmen's Commissions	12,296.00	
Advertising Expense	2,000.00	
Freight-In	1,872.00	
Delivery Expense	3,270.00	
Rent Income		24,000.00
General Expense	17,642.00	
Miscellaneous Selling Expense	4,286.00	
Sales Discount	1,246.00	
Purchase Discount		787.00
Life Insurance Premiums	1,095.50	
Fire Insurance Premiums	1,528.00	
Interest Expense	6,263.10	
Taxes	4,125.00	
Building Repair and Maintenance	2,763.50	
Light, Heat, and Power	1,642.50	
	$536,938.33	$536,938.33.

The life insurance premiums represent those paid on two ordinary life policies. One, purchased on January 1, 1931, on the life of the president, has a cash surrender value on December 31, 1933, of $994.50 and its annual premium amounts to $593.50. Its beneficiary is the corporation. The second policy, purchased on July 1, 1931, on the life of the vice-president, will have a cash surrender value on June 30, 1934, of $733.50 and its beneficiary is the wife of the official insured. The annual premium paid thereon amounts to $502. Both premiums were charged off as expenses in former periods.

The temporary investments, which were purchased July 1, 1933, are:

100 Shares Co. C 8% preferred stock—par $100—at 99½ (market value Dec. 31, 100).
50 Shares Co. D 6% cumulative pfd. stock—par $100—at 42 (market value Dec. 31, 39).
5 A Co. 6% bonds due 1948, $1,000 each, interest due Jan. 1, and July 1, at 98 (market value Dec. 31, 97).
5 B Co. 5% bonds due 1950, $1,000 each, interest due Feb. 1 and Aug. 1, at 93 and accrued interest (market value Dec. 31, 91).

The following adjustments are to be considered in determining the profit or loss for the year:

Merchandise inventory, Dec. 31, 1933	$39,287.54
Accrued advertising expense	2,500.00
Accrued office salaries	746.18
Provision for bad debts	1,400.00
Depreciation of building, 2% on cost	
Depreciation of office and salesroom furn. and fix., 10% and 15% of their respective costs	
Taxes paid in advance	594.62
Rent income received in advance	2,000.00

A quarterly dividend of 2% has been declared on the Co. C stock on December 1, 1933, payable on January 1, 1934. This had not yet been recorded. Bond interest was received as due.

(a) Prepare journal entries to adjust and close the books.
(b) Draft profit and loss statement for the period.
(c) Draft balance sheet for December 31, 1933.

2. Calculate the value in a 5½% market of a $10,000 5% bond with 5 years to run, interest being paid semi-annually. This bond is purchased one year later in a 6% market. In both cases the bond is offered on an interest date.

(a) Prepare an amortization schedule for the bond when purchased.
(b) Make journal entry for the first interest received, so as to reflect true yield.
(c) Make journal entry at time of maturity and redemption of the bond.

NOTE: $(1.0275)^{10} = 1.311651$
$(1.03)^{8} = 1.266770$

3. On June 1, 1931, the Kapper Company purchased for permanent investment 10 $1,000 bonds, due July 1, 1936, and bearing interest at the rate of 6% per annum payable January 1 and July 1. The purchase price was such as to yield the company an annual return of 5% and included accrued interest to June 1.

On July 1, 1932, five additional bonds of the same type were purchased at the same yield.

On July 1, 1933, all of the above bonds were sold at a price that yielded the purchaser an annual return of 4%.

(a) Prepare journal entries to record the above transactions on the books of the company. Show all computations.
(b) Prepare amortization schedule for the 10 bonds bought in 1931.
(c) Make journal entry to record the bond interest received on January 1, 1932, so as to reflect the true yield.

NOTE: $(1.025)^{11} = 1.312087$ $(1.025)^{6} = 1.159693$
$(1.025)^{8} = 1.218403$ $(1.02)^{6} = 1.126162$

4. A corporation carries a 20-year endowment insurance policy for $20,000 on the life of its president. The policy was purchased on April 1, 1930. The following data are available concerning the policy: (1) annual premium, $1,017.80; (2) cash surrender values, March 31, 1932, $1,040, and March 31, 1933, $1,780.

(a) Make all entries in connection with the policy from its purchase through March 31, 1933.
(b) In the event of the death of the insured on May 15, 1933, make the necessary record.
(c) Had the policy been a 10-year renewable term policy with annual premium of $311.20, what changes would have been necessary in the entries of (a) and (b)? (No journal entries required—just a statement.)
(d) If the estate of the insured, instead of the corporation, were the beneficiary, what entries would be made at the time of each premium payment in the case of the endowment policy?

Assignment 9

1. The following is the trial balance of the general ledger of J. B. Sax Co. on December 31, 1933, the last day of the fiscal year, for which a year ago you prepared estimated statements. See Problem 1, Assignment 6.

Cash in Bank	$ 22,922	
Trade Accounts Receivable	84,078	
Petty Cash	200	
Reserve for Doubtful Accounts		3,400
Merchandise Inventory	48,000	
Temporary Investments	30,000	
Insurance	3,240	
Miscellaneous Office Expense	6,380	
Land	45,000	
Building	66,600	
Depreciation Reserve Building		$ 18,000
Store Furniture and Fixtures	14,930	
Depreciation Reserve Store Furn. and Fix.		8,930
Office Furniture and Fixtures	8,390	
Depreciation Reserve Office Furn. and Fix.		4,920
Delivery Equipment	12,900	
Depreciation Reserve Delivery Equipment		4,200
Goodwill	22,000	
Trade Accounts Payable		8,771
Salesmen's Salaries	60,175	
Taxes	4,500	
7% Cumulative Participating Preferred Stock		50,000
Common Stock, 1,600 shares, par $100 each		160,000
Surplus		6,273
Sales		617,840
Sales Returns and Allowances	19,340	
Purchases	323,780	
Purchases Returns and Allowances		3,630
Freight Inward	11,150	
Freight Outward	3,995	
Miscellaneous Selling Expenses	3,460	
Delivery Expense	9,065	
Advertising	20,110	
Officers' Salaries	19,364	
Legal Expense	4,260	
Office Salaries	24,605	
Telephone and Telegraph	1,650	
Postage	6,210	
Depreciation of Car Sold	200	
Loss on Sale of Car	500	
Sales Discount	5,143	
Interest on Mortgage Payable	2,500	
Credit Department Expense	3,100	
Purchase Discount		10,168
Dividend on Temporary Investments		515
Loss on Sale of Temporary Investments	2,100	
	$893,247	$893,247

The merchandise inventory on December 31, 1933, is $45,850.

The established annual depreciation rates are as follows: building 3%, of which two-thirds are charged to selling and one-third to general administrative expenses; store furniture and fixtures 10%; office furniture and fixtures 10%; and delivery equipment 20%. In computing depreciation, assets purchased in the first half of the month are depreciated for the full month and those purchased in the second half are considered as acquired on the first of the subsequent month.

Changes in the fixed asset accounts during the year were as follows: Building—new front completed on November 1, at a cost of $6,600; Store Furniture and Fixtures—show case costing $70 and fully depreciated, with no scrap value, discarded on January 4; Office Furniture and Fixtures—purchased a new filing cabinet on January 5 costing $40 and an adding machine on October 3 costing $150, both having an estimated life of 10 years; Delivery Equipment—purchased a new truck on September 2 costing $2,400; also on September 2 the company sold for $200 its passenger car which had cost $1,500 on January 1, 1931. This car had been depreciated at the rate of 20% per annum.

Prepaid expenses on December 31, 1933, are as follows: advertising $1,500; miscellaneous selling expenses $200; postage $20; insurance $450.

The accrued expenses are: salesmen's salaries $1,050; taxes $1,500; office salaries $980; and legal expense $200.

It is estimated that 1% of the net sales will prove uncollectible.

The accounts receivable are outstanding on an average of 61 days, and customers taking 45% of the sales have taken or are expected to take advantage of the sales discount. Provide a reserve for sales discounts on the basis that 14% of the year's sales took place in December. Credit terms are 2/10, n/30.

The company paid dividends to the stockholders as planned. The only credit to the surplus account was $560, representing the excess of the reserve for sales discount on December 31, 1932, over the discount which was taken.

NOTE: Amounts are to be expressed in even dollars, fifty cents or more being counted as an additional dollar.

(a) Draft a balance sheet as of December 31, 1933, and set it up in comparison with the estimated balance sheet prepared in Problem 1, Assignment 6.

[The usual comparative balance sheet form is all that is required here. See Kester, *Principles of Accounting* (Accounting Theory and Practice, Vol. I), page 606, for form.]

(b) Draft a statement of profit and loss for the year and show it in comparison with the similar estimated statement prepared in Problem 1. Assignment 6.

(c) Draw up statements of actual cash receipts and disbursements.

(d) Name 5 important points as to which the company's plans failed to materialize. Discuss briefly their significance.

2. You are called upon to confirm the merchandise inventory of the Robinson Mercantile Co. as of December 31, 1933. You find that the inventories of prior years, with the exception of that of January 1, 1931, have been incorrectly taken. You find, however, that goods have been marked for sale so as to secure a gross profit for each year of 25% of the cost of goods sold. You secure the following data from the books:

Inventory, January 1, 1931 ..... $ 57,270.34

	1931	1932	1933
Purchases, gross	$ 89,460.23	$ 73,524.10	$ 69,417.24
Purchase returns	5,227.15	2,214.70	624.17
Freight-in	425.00	310.14	195.28
Sales	117,246.32	103,317.18	91,428.64
Sales returns	1,564.27	1,212.14	824.12
Discounts on purchases..	867.14	694.18	608.10
Discounts on sales.....	1,314.12	1,229.76	1,042.16

(a) Compute the inventory of December 31, 1933, if discounts are treated as deductions from the price of merchandise.

(b) Compute the inventory, if discounts are not so treated.

3. A builder has a contract in process at the close of his fiscal year. The data relating to it are as follows:

Contract price	$150,000	Cost to date, including costs of $8,000 of past week...	$ 80,000
Certificate issued by supervising architect one week ago showing portion completed as	70%	Estimated cost to complete.	21,000
		Payment received on above basis, with 10% retained.	94,500

In closing his books he decides to take a profit, conservatively estimated, on the 70% portion completed.

(a) Determine the amount of profit to be taken.

(b) Draft entries necessary to give effect to the profit taken: (1) if cost of the 70% portion is to be considered cost of goods sold; (2) if the 70% portion is to be carried forward in the inventory.

(c) What will be the value of his inventory of this contract: (1) under the conditions of b, 1; (2) under the conditions of b, 2?

4. Bonds with a par value of $50,000 bearing 6% interest are purchased for permanent investment to yield 5% to maturity. Interest is payable semi-annually, the bonds have 5½ years to run and are redeemable at 110 at maturity.

(a) Draw up an amortization schedule to maturity.

(b) Draft journal entries to record receipt of last interest income and of redemption price at maturity.

NOTE: $(1.025)^{11} = 1.312087$

Assignment 10

1. On July 1, 19—, A, B, and C formed a pool, with C acting as manager, for trading in the common stock of a certain company. The members of the pool invested as follows: A, $35,000; B, $40,000; C, $30,000. Profits and losses were to be shared in proportion to capital investments and C was allowed a salary equal to 10% of the profits remaining after deducting C's salary.

The cash was deposited on July 1 with a broker who made the following purchases and sales in accordance with C's instructions:

July 2, bought 1600 shares at 63
" 15, sold 1300 shares at 70
" 20, sold 200 shares at 73.
" 28, bought 500 shares at 65
Aug. 19, sold 500 rights at 6, less commission of $37.50, and transfer taxes of $20. Exercised the remaining 100 rights.
Sept. 1, sold 400 shares at 55
" 15, bought 250 shares at 50
" 30, closed the account with sale at 58

On August 15, 19—, the pool received rights to subscribe to additional shares of the stock at $50 per share. Each share owned by the pool carried the right to purchase one new share and is quoted on the market ex-rights at $60. The rights are quoted at $10.

The broker rendered a monthly statement of account charging or crediting accurate interest at the rate of 6% per annum. He also charged the account with transfer taxes at the rate of 5 cents for each share sold, his commission at the rate of $17.50 for each 100 shares bought or sold, and transfer taxes of 4 cents for each right sold or exercised. On September 30, 19—, the broker closed the account in accordance with his instructions and remitted the check for the balance due.

On October 1, 19—, C the manager, determined the net profit or loss on the venture and distributed the proceeds among the members.

(a) Give the journal entries necessary to record all of the above transactions on the pool's books which are kept by C, who reports monthly to A and B.

(b) Give the journal entries to show the distribution of the profits or losses and the net proceeds.

(c) If C kept the record of the pool's transactions on his own books, instead of on separate books, what changes would be necessary, assuming that the cash contributed by A and B passed through C's regular account books? Merely state the changes involved.

NOTE: As a basis for making the record of broker's monthly statements, make a rough draft of the broker's account with the pool, using 3 columns, debit, credit, and balance, from which it will be easy to compute the interest charges or credits. Interest is to be computed for the exact number of days based on a 365-day year and is to be allowed for the first day of a time interval. See Kester, *Principles of Accounting* (Accounting Theory and Practice, Vol. I), pages 328-335, for method of accounting for joint ventures.

2. The balance sheet of the partnership of A, B, C, and D appears as follows at the close of their last fiscal period December 31, 19—:

Assets		*Liabilities and Capital*		
Cash	$50,000	Notes Payable		$10,000
Accounts Receivable	40,000	Accounts Payable		20,000
		A, Capital, Jan. 1..	$40,000	
		B, Capital, Jan. 1..	30,000	
		C, Capital, Jan. 1..	20,000	
		D, Capital, Jan. 1..	10,000	
		Total	100,000	
		Loss for year	40,000	
		Net Capital		60.000
	$90,000			$90.000

The partners share profits and losses: A, 15%; B, 20%; C, 45%; and D, 20%. Due to the unsatisfactory results and uncertain outlook, the partners decide to dissolve. The accounts receivable, except one for $12,000 which is found to be worthless, are collected less $150 discount. The debts are paid plus $40 interest. Upon settlement among the partners it is found that D is entirely without personal resources but C has cash of only $2,000 which he contributes in settlement of his capital deficit.

(a) Draft journal entries to show dissolution of the partnership. Show all computations in explanation of journal entries.

3. At the beginning of the first year of operations the following cash expenditures, among others, were made by the Adams Advertising Agency:

Premium for three years' fire insurance policy on furniture and equipment	$ 300
Rearrangement of office layout, changing partitions, etc.	3,250
Organization expenses	300
Legal fees for the year	4,000
Stationery and printing	1,500

The lease of the office expires five years from the organization of the corporation with an option for renewing it for a similar period.

The legal fees include $1,000 paid for a lawyer's services for drawing up the charter provisions and the by-laws.

Stationery and printing expenses include $300 paid for the corporation's stock record books, etc. The balance of stationery and printing expense represents a favorable purchase of a large supply of regular stationery of which three-fourths is still on hand at the close of the year.

(a) Prepare journal entries, with suitable explanations, to adjust each of these items at the close of the year.

(b) State where and under what captions these items would appear in the balance sheet.

4. A textile house had on hand on July 1, 40,000 yards of a certain kind of cotton goods valued at 5 cents per yard. During the next 6 months' operations its purchases and sales were as follows:

Month	Units Bo't	@	Price	Units Sold	@	Price
July	75,000	@	6¢	90,000	@	8¢
Aug.	85,000	@	6½¢	95,000	@	9¢
Sept.	70,000	@	5¾¢	55,000	@	8½¢
Oct.	60,000	@	5¢	40,000	@	7¢
Nov.	100,000	@	5¼¢	70,000	@	7½¢
Dec.	150,000	@	6¼¢	185,000	@	8¾¢

(a) Determine the monthly inventories in units and value.

(b) Determine the monthly cost of goods sold.

(c) Determine the monthly gross profit.

(d) Draft the necessary monthly entries to maintain a perpetual inventory.

NOTE: Use the method of moving averages to cost the sales. Carry all computations four places beyond the decimal.

5. Upon investigation the condition of the stock-in-trade inventory of Livingston George & Co. on December 31, 19—, was as follows:

Goods in store.....	$100,000	Goods in transit.....	$ 30,000
Goods in warehouse free..	50,000	Goods on order.....	55,000
Goods in warehouse under trust, receipt held by bankers for loan of $20,000	35,000	Goods out on consignment	20,000
		Firm sales orders on hand, packed for shipping and ready for billing at $30,000	25,000

It is disclosed that in the warehouse stock of $50,000 is a reserve stock of $30,000 purchased because of the favorable market but not expected to be needed until 18 months hence.

(a) Draft journal entries to make such adjustments as you deem necessary properly to reflect the inventory on the books.

(b) Show the proper set-up of the inventory on the balance sheet.

Assignment 11

1. The following preclosing trial balance was taken from the general ledger of the Novatype Manufacturing Corporation, December 31, 1933:

Land	$ 150,000.00	
Buildings	300,000.00	
Depreciation Reserve Buildings		$ 30,000.00
Machinery and Equipment	250,920.00	
Depreciation Reserve Mach. and Equip.		23,862.00
Office Furniture	8,900.00	
Depreciation Reserve Office Furniture		890.00
Permanent Investments	100,000.00	
Treasury Stock, cost of 2,000 shares	233,500.00	
Temporary Investments, market value, Jan. 1	138,200.00	
Inventories:		
Raw Material	322,486.00	
Goods in Process	275,614.00	
Finished Goods	101,216.00	
Factory Supplies	44,612.00	
Office Stationery	4,072.00	
Merchandise Valuation, Jan. 1	47,692.00	
Accounts Receivable	392,800.00	
Reserve for Doubtful Accounts		10,892.00
Notes Receivable	28,000.00	
Cash in Bank	19,247.00	
Cash on Hand	863.00	
Capital stock, $100 par, 20,000 shares authorized		1,500,000.00
Surplus		334,647.54
Bonds Payable, 6%, 10 years, due Jan. 1, 1943		250,000.00
Premium on Bonds Payable		18,723.62
Accounts Payable		350,647.00
Notes Payable		39,622.00
Sales		3,966,228.00
Sales Returns and Allowances	41,260.00	
Raw Material Purchases	1,979,000.00	
Raw Material Pur. Returns and Allowances		15,096.00
Inward Freight and Cartage	22,147.00	
Direct Labor	974,052.00	
Indirect Labor	126,719.00	
Superintendence Factory	49,614.00	
Light, Heat, and Power:		
Factory	30,116.00	
Office	3,042.00	
Repairs:		
Factory Building	8,000.00	
Office Building	2,600.00	
Salesmen's Expenses	132,760.00	
Advertising	59,164.00	
Freight-Out	34,816.00	
Packing Supplies and Labor, Selling Expense	24,250.00	
Cost Department Salaries	15,630.00	
Bad Debts, Current Year's Sales Only	48,124.00	
Office Salaries	99,617.00	
Sales Discount	24,600.00	

Interest Income, Notes		2,080.00
Interest Income, Investments		9,000.00
Insurance:		
Raw Materials	1,875.00	
Goods in Process	1,400.00	
Finished Goods	507.00	
Machinery and Equipment	1,296.00	
Office Equipment	48.00	
Factory Building	1,080.00	
Office Building	720.00	
Factory Supplies	81,614.00	
General Factory Expense	76,814.00	
General Administrative Expense	25,612.00	
Salesmen's Salaries	312,000.00	
Purchase Discount		31,514.00
Profit on Sale of Real Estate		48,000.00
Loss on Machinery Scrapped	12,169.00	
Dividend Income		9,768.00
Estimated Profit or Loss from Sale Valuation of Merchandise		47,692.00
Taxes	21,246.00	
Factory Stationery	6,846.00	
Office Stationery	11,212.00	
Office Postage	5,169.00	
Telephone and Telegraph	7,146.00	
Interest Cost	6,218.00	
Bond Interest Cost	6,737.16	
Legal and Audit Expenses	15,320.00	
	$6,688,662.16	$6,688,662.16

The following information, to be taken into consideration in closing the books, was available from various sources:

(1) Notes receivable discounted during the year amounted to $74,500, of which you find $62,200 have been paid and none dishonored.

(2) Accounts receivable were hypothecated in the amount of $100,000 on November 1, 1933. The Finis Discount Co. advanced 70% of the face value of these accounts less a commission of $500. The entry made to record this transaction was a debit to Cash for the amount received, debit to Interest Cost for the commission and a credit to Accounts Receivable. On January 2, 1934, a report was received from the discount company to the effect that it had collected up to December 31, 1933, discounted accounts of a face value of $70,000. It therefore returned $20,300 in cash—$21,000 to adjust the amount left on margin less an additional charge of $700 based on the accounts collected.

In booking uncollectible accounts it is the company's practice to charge all such accounts arising out of current year's sales to Bad Debts account, and in addition at the end of the year to create a reserve deemed sufficient to care for the portion of the accounts then outstanding and considered uncollectible. Each year's receivables are collected or written off before the end of the following year. A credit balance in the reserve

at the end of the year therefore is true surplus. You are to provide a reserve of ½% of net sales, including consignment sales reported by consignee, to care for doubtful accounts now outstanding.

(3) Merchandise costing $10,000 had been shipped on consignment, billed at a memorandum price of $12,500, which had been included in Sales and Accounts Receivable accounts. Freight and cartage of $150 had been paid and charged to Freight-Outward. On December 31, 1933, the consignee, a del credere agent, reported the following:

One-half of the merchandise had been sold on account at a price of $8,000 and the other half was still on hand. He had paid $97 for cartage on the consigned merchandise and had collected to date $5,000 from the customers. The consignee remitted a check for $4,423 covering the amount collected less his expenses and his commission of 6% of the sales amount.

No record of the consignee's report and remittance had yet been made by the company. The inventory of finished goods on December 31, 1933, given below does not include the cost of finished goods reported by the consignee as unsold.

(4) The company's bonds were issued January 1, 1933, at the effective rate of 5% per annum. The bond interest is payable semi-annually.

(5) Permanent investments consist of 100 bonds of the Argus Equipment Co. bought 2 years ago at par, interest thereon payable January 1 and July 1 at 6% per annum.

Temporary investments cost $139,100 and on December 31 had a market value of $139,612.

Accrued interest on all investments amounts to $3,975.

(6) Inventories on December 31, 1933, were:

	Cost	Market
Raw materials	$337,816	$336,929
Goods in process:		
Raw materials	90,168	90,972
Labor	140,618	
Overhead	45,722	
Finished goods:		
Raw materials	29,814	
Labor	45,116	
Overhead	13,212	
Factory supplies	10,816	11,914
Office stationery	1,014	

The account, Merchandise Valuation, included the estimated profit on finished goods only. The estimated cash realizable value of the finished goods on hand at December 31, 1933, was $133,053.00, which amount also covers goods in hands of consignee.

(7) Fixed assets are to be depreciated at the following rates:

Machinery and equipment	10%	Office building, cost $100,000.	5%
Office furniture	5%	Factory building, cost $200,000	5%

(8)

Insurance prepaid:		Accrued liabilities:	
Raw materials	$ 863	Interest on notes payable	$ 416
Goods in process	600	Interest on bonds payable	7,500
Finished goods	300	Wages and salaries accrued:	
Factory building	675	Direct labor	21,216
Office building	460	Indirect labor	4,018
Machinery and equipment	575	Salesmen's salaries	6,419
Advertising prepaid	5,375	Office salaries	4,916
Deferred interest income	300		

Amortization of bond premium—amount to be derived. (From the bond interest account the amount of the first amortization is easily calculated and from this the original sale price of the bonds can be derived. From this each period's amortization can be calculated.)

Taxes are to be apportioned 75% to manufacturing costs and 25% to general administrative expenses.

(a) Prepare adjusting journal entries with adequate explanation.

(b) Prepare an accountant's work sheet using a classified trial balance. Preserve this for use in Assignment 12, Problem 1, and Assignment 13, Problem 1.

2. On April 1, 19—, the Arnold Theatre Co. purchased a theatre building and its equipment which were 2¼ years old. The purchase price was $200,000 of which $50,000 was paid in cash, with the balance to be paid in monthly instalments of $10,000 each. On the purchase date the building was valued at $150,000 and the equipment at $50,000.

The building was redecorated at the cost of $10,000 and was therefore not available until July 1, 19—. The decorations were expected to last 2 years. The usual annual rates of depreciation on theatre buildings and equipment are 4% and 12½% respectively.

(a) Prepare journal entries to record the purchase of the building and its equipment and the cost of the decorations. (Set up the original cost of building and equipment offset by suitable reserves based on expired life to date of purchase at the depreciation rates given.)

(b) If it is desired that only the present purchase prices be shown in the accounts, calculate the revised depreciation rates which, applied thereto, will take care of depreciation during the remaining life of the building and equipment. (Disregard scrap values.)

(c) Draft journal entries to record the depreciation accrued on December 31, 19–. [Use the rates calculated in (b) for building and equipment.]

3. A corporation purchased a piece of machinery costing $52,650, with an estimated scrap value of $3,742 at the time of discard estimated as 10 years hence. Repairs during the life of the asset were estimated to amount to $7,000. Depreciation and repair costs were to be spread evenly but separately over the life of the asset.

(a) Prepare journal entries in accordance with the above plan to record depreciation and repair costs for the first 4 years.

(b) If repairs for each of the 4 years were actually $100, $150, $200, and $260, record these costs. What significance, if any, attaches to the balance in the Reserve for Repairs accounts?

(c) If actual repairs for the remaining 6 years were $6,490, what disposition should be made of Reserve for Repairs account then, if the asset is retired from service?

(d) If depreciation and repairs are to be handled as a combined cost, make the necessary record for the 10 years, using the data of (b) and (c). (Use a combined entry for the estimates and one for the actual costs for the 10-year period.)

4. A company purchases a piece of machinery for $5,700 and costs of installation were $600. The estimated life is 8 years with a scrap value of $200.

At the end of 6 years a new attachment is added to the machine which costs $1,000 and $250 for its installation. At this time the remaining life of the machine is estimated at 5 years, with no change in scrap value.

(a) Set up a depreciation schedule, on a straight line basis, to show at the end of each year in parallel columns: (1) periodic depreciation, (2) accumulated depreciation, and (3) depreciated value of asset. (See page 259 for form.)

(b) Draft journal entries to record the original and subsequent purchases and the depreciation. (Show two summary entries for depreciation for 6 and 5 years respectively.)

Assignment 12

1. From the work sheet of the Novatype Manufacturing Corporation prepared for Problem 1, Assignment 11, and other data there available:

(a) Prepare condensed balance sheet—with supporting schedules—as on December 31, 1933.

(b) Prepare condensed profit and loss statement—with supporting schedules—for the year.

2. On April 1, 19–, the Safe Delivery Co. purchased a fleet of 10 trucks for $32,500. It was estimated that each truck would be used for 250,000 miles and would then have a trade-in value of $450. Repair costs for the life of each truck were estimated at $500. At the close of the fiscal year, December 31, the performance records of each truck were as follows:

Truck No.	Mileage	Repair Cost	Truck No.	Mileage	Repair Cost
1	35,000	$100	6	40,000	$60
2	40,000	75	7	25,000	75
3	45,000	95	8	45,000	40
4	15,000	None	9	38,000	55
5	38,000	60	10	35,000	50

Depreciation and repairs are to be estimated and recorded separately on a performance basis.

(a) Make the computation for estimated depreciation and repairs for the period.

(b) Draft summary journal entries to record the data of (a) for the fleet.

(c) Draft summary journal entries to record the actual cost of repairs for the whole fleet.

3. A fixed asset cost $6,300, had an estimated life of 5 years in terms of time lapse; of 7,000 working hours in terms of use; and of 46,000 units in terms of production. It was estimated to have no scrap value. The asset was used for 5 years and was then sold to a customer for $50. The history of the machine during the 5 years was as follows:

Year	Working Hours	Output
1	1,000	6,800
2	1,900	11,500
3	2,100	13,900
4	1,900	10,800
5	1,000	6,300

(a) Show the Depreciation Reserve account in detail for this asset under each of the following methods: (1) straight line; (2) working hours; (3) service output; (4) changing percentage of cost less scrap.

(b) Compute the depreciation cost per unit of product for each year by the several methods.

(c) Give the journal entries to record the sale of the asset.

4. On January 1, 19–, a corporation purchased 50 machines at a cost of $500 each. Each machine was expected to have a life of 10 years, of 25,000 hours, of 100,000 units of output. For each machine the scrap value was estimated at $30 and repairs at $55. Performance records of the 50 machines for the first 7 years showed as follows:

Year	Hours Worked	Output	Repair Costs
1	100,000	410,000	$200
2	120,000	470,000	220
3	140,000	530,000	275
4	160,000	560,000	290
5	165,000	590,000	300
6	140,000	510,000	350
7	100,000	390,000	375

Due to unforeseen conditions of operation, it was estimated at the end of the fifth year that the machines would last only 3 years more and that the working hours for these 3 years would be 350,000 and the output 1,200,000. It was also estimated that the originally estimated repair charges would be sufficient.

(a) Set up in parallel columns the depreciation charges for the 7

years under the three methods. Indicate in footnotes the basis of computation.

(b) Set up in parallel columns the repair charges for the 7 years under the three methods. Indicate basis of computation.

(c) Set up in parallel columns the unit cost, for each year, for depreciation under the three methods.

(d) Draft journal entries to make such adjustment as you deem necessary at the end of the fifth year, under the three methods.

5. A company purchased a piece of machinery for $10,000 which had an estimated life of 10 years and a scrap value of $1,000. Depreciation was to be computed by the method, changing percentage of cost less scrap. At the end of the fourth year it was found that owing to the increased prospects for business, the machine would have to be operated thereafter for 16 hours daily instead of 8 hours as formerly, and during the next 2½ years it was so operated. At the end of the 6½ years the machine was sold for $1,500.

(a) Compute the depreciation for each of the 6½ years. [Set up in 3 parallel columns for (1) year, (2) rate, and (3) depreciation.]

(b) Prepare journal entries to record the sale of the machine.

Assignment 13

1. From the work sheet of the Novatype Manufacturing Corporation, prepared for Assignment 11, Problem 1, and the statements prepared for Assignment 12, Problem 1, draft the journal entries necessary to close the books. Be sure to give adequate explanations, when needed.

2. A mining company builds, at a cost of $32,768, a temporary railroad track to serve one portion of its property. It is expected that the track will be used for hauling output for 4½ years and will then have a scrap value of $3,125. Only minor repairs will be necessary. The output of the mine is fairly uniform in value and is estimated to amount to 88,000 tons from the section served by the railway. During 6 months of the first year the road was used for hauling supplies and materials for use in opening up the ore body, production beginning at the end of that time and amounting to 6,000 tons for the year. At the year's end, faced with the necessity of adopting a depreciation policy, the company asks you to draft a report setting forth the results achieved under the following methods: (1) straight line; (2) fixed percentage of diminishing value; (3) changing percentage of cost less scrap; and (4) output. 37.5%

In order more fully to inform your client, you ask the company's production engineer to give you an estimated production schedule for this section of the mine. He furnishes the following data: second year, 15,000T; third year, 20,000T; fourth year, 22,000T; fifth year, 25,000T.

(a) Compute the amount of depreciation to be charged to construction during the first 6 months.

(b) Set up in 4 columns the estimated depreciation costs, under the 4 methods, for each of the years of operations. (Show your computations in footnotes.)

(c) As a part of your report you present a line chart to show graphically the depreciation reserve for the asset during the period of its service life. Draw the chart.

(d) State briefly your recommendation to your client, supporting this with a columnar table to show the unit costs per year under the four methods.

NOTE: For convenience in determining depreciation for 6 months, calculate the annual amount and divide by 2.

3. I. M. Devilbiss & Co., printers and engravers, had installed 6 months ago a large power press costing $50,000, of identical make and design with one which they had previously used and retired, the cost of repairs having become prohibitive. The company desires to establish a proper depreciation policy for the new press and secures your services for that purpose. You decide to suggest several methods, supported by the necessary data to show their different effects. While the press had been used chiefly for magazine work, it was adaptable to other uses and the new one might be so employed. A careful analysis of the record of the old press, which cost $40,000 and was turned in on the new press at an allowance of $4,500 after 12½ years' use revealed the following:

Year	Working Hours	Output	Cost of Repairs	Year	Working Hours	Output	Cost of Repairs
1	2,400	47,000	$ 50	8	3,600	54,000	$1,000
2	2,800	50,000	160	9	4,200	65,000	300
3	3,000	51,000	360	10	4,100	63,000	500
4	2,600	41,000	750	11	4,400	70,000	750
5	2,900	46,000	200	12	4,800	72,000	1,500
6	3,300	50,100	500	13*	2,500	30,000	1,000
7	3,800	55,000	250				

* Covers only 6 months' operation.

Due to higher price levels, you estimate repair costs for the new press at 15% more than those of the old press. The estimated turn-in allowance of the new press is 10% of its cost.

(a) Prepare a schedule showing the estimated depreciation and repair costs under the three proportional methods. (Use a 7-column tabular set-up by years—one for year and two each for the three methods, the first for depreciation, the second for repairs.)

(b) Compute: (1) the unit output cost for depreciation, repairs, and both combined and (2) the similar unit working hour cost.

4. Home Industries, Inc., was organized on January 1, 1930, and had carried all of its fixed assets in a single account, Plant and Equip-

ment, which it had depreciated each year at the rate of 10% of the reduced balance of the account. Early in 1934 the company, realizing that its depreciation costs had been particularly heavy during the past period of economic depression, sought professional advice and adopted a new policy of depreciation. It decided to keep record of its fixed assets under 6 groups as indicated below and, in order to determine the proper basis for the set-up of these records—to be effective as of January 1, 1934—it decided to use the straight line method of depreciation and accepted the following data as the basis for revised estimates, retroactive to January 1, 1930:

Group Title	Years of Life Expectancy	Estimated Scrap Value (Net)	Estimated Repairs Expense
Factory building	40	None	35% of cost
Office building	50	None	30% of cost
Machinery and equipment	20	5% of cost	50% of cost
Delivery equipment ..	5	15% of cost	30% of cost
Patterns	2	None	None

An analysis of the Plant and Equipment account showed the following information:

DEBITS

Date		Land	Factory Bldg.	Office Bldg.	Mach. and Equip.	Del. Equip.	Patterns
1/1/'30	Cost	20,000	70,000	10,000	150,462	6,000	2,000
7/1/'31	"		5,000	5,000	63,476		1,500
7/1/'32	"				20,814	2,000	2,400
7/1/'33	"		20,000		34,016		2,100

CREDITS

12/31/'30	Deprec.	2,000	7,000	1,000	15,046.20	600.	200
7/1/'31	Sales				3,847.—		
12/31/'31	Deprec.	1,800	6,800	1,400	19,504.48	540.	330.
7/1/'32	Sales	6,340			1,416.—	700.	
12/31/'32	Deprec.	986	6,120	1,260	19,493.83	616.	537
7/1/'33	Sales		1,837		7,822.—		
12/31/'33	Deprec.	887.40	7,324.30	1,134	20,163.85	554.40	693.30

The land, as such, was not credited with depreciation, but land values having been included as a part of Plant and Equipment were in effect written down. The sales credits in every instance represented the sales price, no adjustment for profit or loss having been made. In the case of land, the portion sold was ⅕ of the whole. In the case of factory building the sales credit represented the sum realized from the sale of excess materials and scrap charged to building account as a part of the $20,000 cost of an addition. In the other cases, the original—i. e., January 1, 1930—cost of the asset sold was in each instance three times its sale price.

The record of actual costs of repairs was as follows:

Year	Factory Building	Office Building	Machinery and Equipment	Delivery Equipment
1930	76	30	1,000	100
1931	114	100	1,540	150
1932	596	380	2,100	210
1933	269	313	2,680	270

To equalize the cost of repairs over the life periods of the various assets, the company decided to record repairs currently on an estimated basis.

(a) Reconstruct the 6 accounts as they should have been kept to give effect to the new depreciation policy. (Present the solution in tabular form, with dates and explanations at the left followed by 6 columns, one for each asset. Show debits as additions and credits as subtractions in these columns, show totals and remainders, the final result in each column representing the cost price of the asset on hand December 31, 1933. Make a similar tabulation for the corresponding depreciation reserve accounts.)

(b) Draft the necessary journal entries, as of January 1, 1934, to set up the record of repairs under the new policy adopted as retroactive to January 1, 1930.

Assignment 14

1. On the basis of the data of Solution to Problem 4(a), Assignment 13, prepare the necessary journal entries to set up, as of January 1, 1934, the asset accounts on the company's books. (Be sure to give ample explanations in support of each adjustment needed, even to the extent of setting up the data in tabular form.)

2. On the basis of the data of Problem 3, Assignment 13, and the further information that Devilbiss & Co. at the time of installation of their old press had adopted the working hours method of depreciation, estimating its life at 47,000 service hours and its discard value at $2,000, prepare:

(a) An appraisal schedule of the asset. (Follow the form shown on page 260, Chapter 12.)

(b) Journal entries for the retirement of the asset by trade-in.

3. A corporation purchases three machines at a cost of $5,000 each, the placement and installation costs being $600 each, the estimated net scrap value $750 each, and their service life 10 years. It keeps the record of the machines in a machinery account and depreciates them on a straight line basis. At the end of the seventh year a newly patented device is added to one of the machines at a cost of $1,000. This was expected to increase the output and lengthen the life of that machine to 13 years, its estimated scrap value remaining unchanged, however.

At the end of 7½ years, one of the other machines is retired, its service proving unsatisfactory. Because of business conditions, it is not immediately replaced. At the time of retirement, its net scrap value is estimated at $1,200 and the cost of dismantling $250.

At midyear of the ninth year—i. e., after 8½ years—the retired machine is dismantled at a cost of $200 and is sold for $1,000. At the same time a new machine is purchased for $6,000, installation costs being $500, estimated life 10 years, and net scrap value $800.

(a) Prepare journal entries to record all of the above transactions, supported by explanations giving full details of computations.

(b) Set up the account with machinery and its relative reserve account, showing all transactions to the beginning of the tenth year.

(c) Show the computation of the ninth year's depreciation.

4. On April 1, 1927, the beginning of a fiscal year, a printing company purchased a rotary press at a cost of $26,480, with an estimated scrap value of $596 and a life term of 10 years. On June 1, 1931, the rollers of the press were sold for $50 and replaced by a new set at a cost of $1,525 with an estimated scrap value of $55. The proportional cost of the old rollers, included in the $26,480, was determined to have been $1,300—with a scrap value of $40—although their cost as a separate repair part at that time was $1,450. It was estimated, when the press was originally installed, that the life of the rollers would be 5 years and the company believed that the new set would serve during the remaining life of the press.

On October 1, 1933, the press was damaged by an explosion, the estimated loss, not covered by insurance, being one-third the net book value on that date. The cost of rebuilding was $7,840 and was expected to extend the life of the asset two years. This cost and the loss were deemed proportionally allocable to rollers and press.

(a) Compute the depreciation by the straight line method, applying it to the rollers and the rest of the press as two separate proper units. (Make a tabular set-up of the assets and their reserve accounts through April 1, 1934. See Problem 4(a), Assignment 13, for suggested form.)

(b) On the assumption that the costs are not separately allocable and that a rate of 12% based on full cost—not net value—is deemed sufficient to take care of all parts replacements, make the depreciation computations as in (a), showing the account and its reserve.

(c) Draft journal entries to make the necessary record, based on (a).

(d) Draft journal entries to make the necessary record. based on (b).

5. Omnibus Air Service, Inc., operated a passenger and freight service by airplane between the east and west coasts. Some of its planes were motored by engines having an estimated maximum service life, controlled by obsolescence, of 6 years or 9,000 hours of flying time. The service life of engines in other planes was estimated at 5 years or 8,400 hours of service. The company maintains separate accounts with these

two groups of motors, designating them as Motors #1 and Motors #2, and records their depreciation under both age and service concurrently. At the end of last month these accounts, with their relative depreciation reserves showed respectively as follows: #1, $21,276 and $10,189; #2, $37,894.50 and $7,245. Flying records for the current month showed flying time of their 20 #1 motors to have been 3,000 hours and of their 45 #2 motors 5,962 hours.

(a) Compute the respective amounts of age and service depreciation for the month. (Disregard scrap value.)

(b) Draft journal entries to record the month's depreciation.

(c) In only two sentences interpret month's depreciation record.

Assignment 15

1. The contract for the construction of a large city hotel showed the following costs of the separate divisions of the work and from appraisal engineers you secure information as to their estimated service lives:

Item	Cost	Service Life (Years)
Building Proper	$1,023,125	40
Plumbing and Heating	201,250	17
Engines and Generators	31,250	24
Electrical Work	47,500	25
Boilers	16,250	20
Elevators	47,500	15
Refrigeration System	11,000	15
Air Conditioning System	7,000	15
Ventilating System	8,875	16⅔
Interior Decoration	106,250	18

The hotel company decides to carry a single account, Building, on its ledger and asks you to determine from the above data a proper rate of depreciation to be used in the yearly appraisals of its value. It was estimated that scrap values would no more than cover the costs of reclaiming such values.

(a) Compute the rate, showing your computations. (Use the direct method tabulation shown on page 300 of the text.)

(b) Write the depreciation entry at the end of the first year.

2. At the end of the fifteenth year, the building parts shown above as having that estimated life period were retired and replaced.

(a) Make the necessary entries to effect retirement and replacement at the original costs.

(b) Analyze the Depreciation Reserve account to see if there has been accumulated a sufficient amount to care for these retirements. (Make a table showing the amounts that have been accumulated on these assets by use of the composite rate, the amounts needed to retire them, and the other sources, if any, of reserves applicable to this use. Give a brief explanation.)

3. City Realtors, Inc. constructed an office building in a rapidly growing section of the city, at a cost of $750,000. Due to the rapid growth and changing character of that section, the service life of the building was estimated at only 30 years. Scrap value of the building was estimated at $50,000, reclaimable at an expenditure of $60,000.

At the end of 30 years, all tenant leases were canceled, the building vacated, and contracts let for its demolition which took place during the next year, the cost being $62,500. The scrap, upon sale, realized $46,000.

(a) Compute the rate of depreciation by the straight line method.

(b) Draft summary journal entries correctly to show, at the end of 30 years, the depreciation written off over the life of the building and the values remaining.

(c) Draft entries to record the reclamation of the scrap and any adjustments necessary.

(d) If the actual values reclaimed had been $45,000 and the costs of demolition $40,000, draft the entries to make the proper record.

4. Local Industries Manufacturing Co. upon organization 5 years ago bought for $500,000 the plant of a nearby manufacturer, expending an additional $100,000 to adapt it to its own use. It had since that time depreciated the plant by the straight line method at the annual rate of 8%. After 6 years' operation, fearing that its depreciation policy might not be reclaiming its plant values as they were being used up, the company made a thorough investigation of the situation by segregating its plant assets into groups of the same life expectancy, regardless of the character of the asset. The investigation gave the following data as a basis for determining the adequacy of the past depreciation policy and for formulating a future policy:

Asset	A 30 years	B 25 years	C 16⅔ years	D 12 years	E 8⅓ years
Buildings:					
Plant	$75,000	$10,000	$ 10,000		$ 5,000
Office		50,000			
Machinery			100,000	$150,000	50,000
Tools				10,000	40,000
Furniture and Fixtures:					
Building Equipment			35,000	20,000	5,000
Loose Equipment		15,000	5,000	12,000	8,000
	$75,000	$75,000	$150,000	$192,000	$108,000

There have been no renewals during the period and, therefore, only the six annual depreciation entries in the reserve. Net scrap values are estimated to be 2½% of original cost.

(a) Compute the life expectancy of the plant at date of organization and its mean age after 6 years.

(b) Determine the adequacy of the depreciation policy and draft

such entries as are necessary to adjust the books to reflect the proper status of the plant account.

(c) It having been decided to carry on the general ledger the four fixed asset accounts shown in the above analysis, compute the depreciation rates applicable thereto and prepare the journal entries necessary to set up the required accounts and their reserves.

(d) Set up the depreciation entries at the end of the seventh year.

5. You are called upon to verify the book value of the fixed assets shown by the balance sheet of the Rapid Delivery Co. In your investigation you find that, in the case of an asset of 5 years' estimated life with no recoverable scrap value, there have been no retirements, although the first units were purchased about 7 years ago. The account and its reserve show values respectively of $105,000 and $70,109. Analysis of the account as of December 31, 1933, shows the following purchases and their dates:

3/31/27	$ 1,000	6/30/28	$ 7,200	4/1/31	$ 3,130
6/30/27	5,000	3/31/29	1,690	7/1/32	24,500
10/1/27	36,000	9/30/30	26,480		

You note that the depreciation written off on December 31, 1932, was $21,000. The depreciation for the current year has not yet been computed.

(a) Make an analysis to determine the status of the account as of December 31, 1932. (Follow the form on page 288 of the text.)

(b) Prepare journal entries to adjust the accounts, it being estimated that all assets upon date of full book depreciation still have 2 years of service life.

(c) Compute and record the estimate of depreciation for the year ending December 31, 1933.

Assignment 16

1. On May 1, 1933, the Brigsby-Roberts Manufacturing Co. suffered a fire loss at their factory, where also were located their stores and finished stock room. The building was damaged to the extent of 15% and the machinery 50%. To ascertain the loss on stores and stock, an inventory was taken immediately after the fire and showed the following stocks free from damage: raw materials $15,000; goods in process $10,000; and finished goods $20,000. A trial balance of the company's ledger for April 30, 1933, showed as follows:

Cash	$ 32,000
Accounts Receivable—Trade	159,760
Notes Receivable	30,000
Inventories, January 1, 1933:	
Raw Materials	55,000
Goods in Process	75,000
Finished Goods	95,000
Direct Labor	50,615

Indirect Labor	11,500	
Sundry Factory Expense	25,800	
Factory Building	100,000	
Furniture and Fixtures	10,000	
Machinery	88,000	
Office Building	25,000	
Land	40,000	
Reserve for Doubtful Accounts		$ 2,000
Prepaid Insurance	585	
Accounts Payable		125,000
Notes Payable		50,000
Depreciation Reserves:		
Factory Building		16,000
Furniture and Fixtures		4,000
Machinery		44,000
Office Building		4,000
Net Purchases of Raw Materials	312,000	
Purchase Discount		5,800
Sales, Net		625,000
Sales Discounts	3,900	
Salesmen's Salaries and Commissions	26,000	
Miscellaneous Selling Expense	30,500	
Officers' Salaries	20,000	
General Administrative Expense	31,500	
Interest and Discount	1,800	
Miscellaneous Income		2,700
Capital Stock, Common		200,000
Capital Stock, 7% Preferred		100,000
Surplus		45,460
	$1,223,960	$1,223,960

The fixed assets had been acquired January 1, 1929, and no additions or retirements had been made. The yearly rates of depreciation—applied to original cost by the straight line method—were as follows: factory and office buildings, 4%; machinery, 12½%; and furniture and fixtures, 10%.

The loss was partly covered by insurance, the insurance register giving the following status of coverage and premiums:

Asset	Coverage	Prepayments Jan. 1, 1933	Unexpired Term
Factory Building	$70,000	$210	2 yrs.
Office Building	25,000	75	2 yrs.
Machinery	35,000	90	2 yrs.
Furniture and Fixtures	5,500	30	2 yrs.
Raw Materials	44,000	45	1 yr.
Goods in Process	60,000	60	1 yr.
Finished Goods	40,000	75	1 yr.
Total		$585	

All policies were standard, carrying the 80% coinsurance clause.

Accruals on May 1, 1933, were: direct labor $1,500; indirect labor $360. There were prepaid factory expenses of $12.50.

In indemnifying the loss, the insurance company determined the cash value of the factory building and machinery to have been, at the time of the fire, $60,000 and $30,000, respectively, less depreciation on the straight line basis for 4 years and 4 months at the respective annual rates of 4% and 10%, and based its liability thereon, excepting that the loss on the building was settled for the round sum of $7,500. The damage to raw materials, goods in process, and finished goods was settled for on the basis of cost, which was to be determined from the factory records. The cost records showed that from January 1, 1933, to the date of the fire, $465,000 of finished goods had been manufactured and that $332,000 of raw materials had been put in process during the same period. The cost of the finished goods sold from January 1 to May 1 was estimated on the basis of an average gross profit of 25% of the cost of goods sold.

The insurance company paid its liability on June 15, 1933.

(a) Compute the liability of the insurance company for the five items damaged. (Set up formal statements for each asset, starting with the value basis agreed upon and showing the adjustments necessary to arrive at its value on May 1 and the amount of the loss. Make a summary statement to show the liability of the insurance company.)

(b) As a basis for adjusting the company's books make a computation to show the amount of the book loss on the five items damaged and any other losses resulting from the fire. (Set up formal statements for each asset—similar to the requirement under (a)—starting with its book value on January 1 and showing the necessary adjustments to arrive at its value on May 1 and the amount of the loss. Do not neglect the item of canceled insurance which should be shown in a separate statement.)

(c) On the basis of the computations of (a) and (b) prepare journal entries to adjust the books and set up the claim against the insurance company and its payment on June 15.

2. During May and June the manufacturing activities of the Brigsby-Roberts Co.—see Problem 1 above—were suspended for repairs which cost $10,000 for the building and $20,000 for new machinery. An appraisal showed the land to be worth $30,000 and the books were adjusted accordingly. During May and June the following additional transactions took place:

Sales on account	$15,000	Other cash payments were:	
Sales returns	900	Accounts payable, after discounts of $618	$70,000
Sales for cash	5,000	Officers' salaries	10,000
Sundry cash income	300	Sales salaries and commissions	3,600
Cash from customers' notes paid	5,000	Sundry selling expense	2,700
Cash from customers' open accounts, after discounts of $1,020	50,000	Gen'l administrative expense	6,530
Cash paid for interest	200	Direct labor accrued	1,500
Cash paid on notes payable	15,000	Indirect labor accrued	360

The company declared and paid its regular semi-annual dividend on its preferred stock.

On June 30, the close of the company's six months' fiscal period, the following data were available for adjusting and closing the books:

Inventory of finished goods	$8,000	Gen'l administrative expense accrued	$2,785
Sundry selling expense prepaid	3,600	Interest expense accrued	100
Gen'l administrative expense prepaid	8,750	Sundry income accrued	100
Sundry selling exp. accr.	4,650	Unexpired insurance—to be computed	

Insurance and depreciation on office building and furniture and fixtures are to be distributed 40% to selling and 60% to general administrative. The reserve for doubtful accounts is to be increased to 3% of the trade accounts receivable.

(a) Prepare journal entries to record all further transactions to the end of June, before closing.

(b) Prepare adjusting entries and work sheet for June 30, 1933. (Use an account titled Idleness Costs Due to Fire to accumulate the direct costs of enforced idleness. Close this direct to Surplus.)

(c) Draw up a statement of profit and loss for the period.

(d) Draw up a balance sheet and surplus statement as on June 30, 1933.

(e) Prepare the closing journal entries for the period.

3. The following table gives the original costs and the basis for computing depreciation of items comprising the Furniture and Fixtures account of Otto Kane & Co. Depreciation was estimated by the straight line method. The company was in leased quarters for 5 years with privilege of renewal for 5 years but after first 5 years moved to a better location.

Title	Cost	Scrap	Life Years	Title	Cost	Scrap	Life Years
Desks	$18,400	$500	10	Partitions	$15,650	None	10
Chairs	1,835	None	10	Rugs	10,000	None	20
Safes	8,750	350	25	Addressographs	800	None	8
Cabinets	3,250	None	10	Typewriters	5,475	1,050	5
Filing equipment	10,000	500	15	Bookkeeping and computing machines	10,789	1,830	5
Sundry equipment	7,657	None	10				
Pictures	1,000	None	Indefn't				

Upon moving to the new location the partitions and sundry equipment were abandoned, all typewriters, bookkeeping, and other machines were traded in for new ones, and new equipment was purchased as follows:

Chairs	$2,654	Typewriters (net of allowance of $950; scrap $1,300)	$6,150
Desks (scrap $225)	8,250	Bookkeeping and computing machines (net of allowance of $2,100; scrap $2,300)	10,350
Electric fans, 5-year life	1,210		
New partitions	12,680		
Sundry equipment	6,450		

Expenses of moving amounted to $720, which is to be amortized over the 10-year term of the new lease. The estimated life of the new equipment is the same as that of former purchases.

(a) Draft journal entries necessary to adjust the account and record the above transactions.

(b) Set up the accounts concerned with reflecting the values of furniture and fixtures after the company is located at the new address.

(c) Prepare the depreciation entry at the end of the first year in the new location.

✓ 4. The Radio Oil Co. ships and delivers its products, oils and paints, in steel drums which are charged to customers at $5 per drum separately from the merchandise and are credited upon return. On June 30, 19–, outstanding accounts receivable amounted to $235,375. The billing record for the year showed that 35,125 drums had been charged to customers. The company owned 5,275 drums, which had cost it $19,781.25 and, by physical inventory, had 750 on hand June 30, the close of its fiscal year. From an analysis of the accounts it seemed that 25 would probably not be returned and the company elected to handle them on that basis.

(a) Set up the accounts properly to reflect the above situation.

(b) Indicate how the above items should appear on the balance sheet.

(c) Compute the turnover rate of drums and state its significance.

Assignment 17

1. The Oroca Engineering Co. builds and operates rental properties for clients and on its own account. A trial balance of its general ledger on August 31, 19–, shows as follows:

Cash	$125,000	
Investment, Short-Term	75,000	
Client A	14,322	
Sundry Accounts Receivable	29,928	
Rex Apartment Hotel	225,675	
Bona Vista	45,000	
Stores Materials	25,000	
Construction Ledger	160,000	
Requisitions under Contracts		$95,480
Plant and Equipment	175,000	
Depreciation Reserve Plant and Equipment		52,500
Notes Payable—Banks		100,000
Accounts Payable		40,000
Mortgage Payable—Rex Apartment Hotel		170,000
Mortgage Payable—Bona Vista		25,000
Capital Stock		250,000
Surplus		109,430
Rental Income		22,525
Profit and Loss on Contracts Completed		21,235
Builder's Commissions		10,100
Operating Expenses—Rental Properties	7,240	
General Office Expenses	13,370	

Field Expenses	9,195	
Sundry Expenses	3,300	
Sundry Income		11,760
	$908,030	$908,030

The account with Client A represents a contract for the construction of an apartment house, taken on a "cost plus 10%" basis, with a guaranteed maximum cost to A of $160,000 plus commissions, the company's sole source of profit thus being 10% of all costs incurred in construction up to $160,000. The contract provided that, upon certification by A's inspector, A would make monthly payments to cover the construction cost during previous month and commission, less 15% withheld until satisfactory completion of contract. Upon certification—including also company's 10% commission—the company charged the client and credited Requisitions under Contracts. Upon completion of a contract the builder's commission was set up separately. The Rex Apartment Hotel account represents the cost of a completed structure now on an operating basis. Bona Vista account represents the cost of a site on which a company project, an apartment house, is in course of construction.

On September 1, the company signed a contract with Client B for the construction of a dwelling house for a flat amount of $62,500, construction to begin at once and to be completed by February 15 of next year. B agrees to make monthly payments upon certified requisitions less 15% withheld.

During the remaining 4 months of the year the following transactions took place:

Costs incurred on projects in process:	
Client A	$70,240
Client B	35,175
Bona Vista	149,632
Included in the above are stores materials amounting to	15,000
Certified requisitions for construction:	
Client A	$63,140
Client B	31,380
Cash receipts were:	
Client A	$53,669
Client B	26,673
Tenants—Rex	20,950
Investments	40,275
Interest on investments	2,100
Consultation fees	1,500
Sundry accounts receivable	15,890
House plans sold to magazine	475
Sales of scrap	600
Notes payable discounted, discount being $1,800	118,200

Cash disbursements were:	
Accounts payable	$163,740
Mortgage interest—Rex	5,100
Mortgage interest—Bona Vista	750
Stores materials	5,000
Plant and equipment	6,450
Mortgage payable—Rex	10,000
Operating expenses—Rex	12,495
General office expenses	9,430
Field expenses	12,365
Sundry expenses	2,810
Rental income	1,275
Builder's commissions	895
Dividends	10,000
Notes payable	100,000

Rentals levied against tenants of the Rex amounted to $25,000.

At the end of the year, as a preliminary to closing, various records were analyzed and gave the following information:

Construction Ledger:

The contract with Client A was completed, satisfactorily to him, at a total cost, exclusive of commissions and field expenses, of $175,839. Included in this, however, was an "extra" of $13,380 authorized by A on a 10% cost plus basis against which no requisitions had yet been certified. Final charge to A for certified requisitions was still to be made.

The contract with Client B was about half completed. It is not the policy of the company to take any profits on work in progress.

The Bona Vista apartment was completed and ready for leasing on December 31, 19—. New and used materials charged to Bona Vista and awaiting return to stores amount to $1,375.

A small plant repair job costing $750 was completed for the company but had not yet been closed out. This amount was included in the balance of the construction ledger account given in the trial balance.

Other data:

Of the $5,100 interest paid on Rex mortgage $2,500 was applied to the period prior to the completion of the property.

Field expenses are those incurred by the company's staff directly in connection with construction projects. These are to be allocated to complete and incomplete projects on the basis of costs incurred. Those field expenses allocated to incomplete projects will not be charged thereto but will be carried as prepaid items until the projects are completed.

Charges to Builder's Commissions account total $2,165 and represent commissions paid sub-contractors.

Charges to Rental Income account represent rental costs of apartments formerly occupied by the company's tenants whose former unexpired leases the company assumed upon their signing leases for the Rex.

The investments sold had a book value of $39,100 and accrued interest at time of sale of $750. The sale price of $40,275 covered both these items.

Accrued expenses are: interest, on Rex mortgage $2,000; on Bona Vista mortgage $400; sewer and park district taxes assessed against Bona Vista $6,945; depreciation on plant and equipment $14,000; and allowance of $500 for doubtful tenants' accounts.

Prepaid expenses are: interest on notes payable $1,200; office supplies, insurance, etc. $1,100.

There is accrued interest of $450 on investments.

Physical inventory of stores amounts to $12,000.

(a) Prepare journal entries needed to record all transactions, including year-end adjustments, from August 31 through December 31. (Disregard depreciation on Rex Hotel.)

(b) Prepare a work sheet as of December 31, 19—. (On it enter the August 31 trial balance, leaving several lines for such accounts as, from the solution of (a), need several adjustments. To the work sheet post the entries from solution of (a). Take an adjusted trial balance and complete work sheet.)

(c) Draft balance sheet as of December 31, 19—.

(d) Prepare profit and loss statement for the year.

2. The Oroca Engineering Co.—see Problem 1 above—early in the new year decided to divest itself of its apartment properties, retaining only their management. It accordingly organized two corporations, the one, the Rex Hotel Co. to which it sold the apartment hotel and the other, the Ahrokay Apartment Homes, Inc., to which it sold the Bona Vista. The sales took place as of January 2 according to the following terms:

The Rex was sold at 5 times its gross yearly rental income which was $72,495 flowing from leases of from 1 to 3 years duration. The Rex Hotel Co. had an authorized capital of 5,000 shares of no par value and issued 4,500 shares in payment of the Oroca Co.'s equity in the hotel, the hotel company assuming the mortgage and accrued interest thereon of $2,053.33.

The Bona Vista, although unrented, was sold to Ahrokay Homes at an appraised value of $250,000 less mortgage which followed the property, accrued interest thereon of $408.33, and accrued taxes. The holder of the mortgage agreed to its cancellation and replaced it with a first mortgage for $150,000, providing the company with additional cash less a commission charge of $2,500. A second mortgage for $50,000 was placed elsewhere, the commission being $2,000. The Homes Company paid the vendor company $150,000 cash and 3,000 shares of an authorized issue of 4,000 no-par value shares.

In making the transfers of the two properties, the Oroca Co. made a careful search of its records with the following results:

(1) The site of the Rex was purchased for $40,000 and accrued taxes of $1,200 which when paid were, however, charged to expense. Similarly, in error, a client's project had been charged with $625 of field expenses properly chargeable to the Rex. The Oroca Co. decides to charge, as a matter of record, a builder's commission of 10% based on corrected construction costs. Uncollected tenants' accounts as of December 31 less the reserve for doubtful accounts were sold with the building.

(2) The book record of the Bona Vista was found correct. In making the transfer, the owners charged a builder's commission of 10%.

(a) Draft journal entries necessary to record the above transactions on the books of the Oroca Engineering Co.

(b) Present a balance sheet of the Oroca Co. after sale of its properties.

(c) Prepare journal entries and balance sheet of the Rex Hotel Co., the hotel site being booked at an appraised value of $50,000.

(d) Prepare journal entries and balance sheet of the Ahrokay Apartment Homes, Inc., the site being booked at vendor's cost.

3. On July 1, 19—, the United Chain Stores, Inc., leased a store for a period of 7 years at a semi-annual rental of $1,500 payable in advance. Six months later the company proposed to the lessor that it make as a lump sum payment for the term of its lease the present value of the 13 remaining rents, the discount rate being 6% per annum. The lessor accepts the offer and payment is made.

(a) Calculate the sum paid by United Chain Stores, Inc. The formula is $A\left[1+\frac{(1+r)^{n-1}-1}{r(1+r)^{n-1}}\right]$, in which A is the semi-annual rent, n is 13, and r is 3%. Note that $1.03^{12}=1.4257609$.

(b) Prepare an amortization schedule for the leasehold as set up on the company's books. (Schedule is similar to that for a bond. See text page 202.)

(c) Draft journal entries to record rental payments for the first two years of the lease.

(d) Draft journal entries for the lessor to record receipt of lump sum payment and the next two amortization entries.

Assignment 18

✓ 1. The Chandler Corporation opened negotiations for the purchase of the partnership of A, B, & C. Tentative agreements were reached, which were finally determined on the basis of the firm's balance sheet as on January 1, 1933, and its record of earnings for the past 3 years, both subject to adjustments as noted below. The firm's balance sheet, without adjustment for current year's depreciation, though reflecting the amortization of the mortgage, showed as follows:

A, B, & C, Balance Sheet, January 1, 1933

Building	$ 42,000	Notes Payable	$ 4,097
Machinery & Equipment	42,000	Accounts Payable	115,063
Merchandise Inventory	30,000	A, Capital	106,287
Accounts Receivable	307,492	B, Capital	108,614
Notes Receivable	60,890	C, Capital	160,930
Prepaid Expenses	2,146		
Cash	10,463		
	$494,991		$494,991

Upon inquiry the following information was made available:

The building site was a leasehold with 60 years to run which the partners had secured late in 1929 at a very favorable annual rental rate. The building had been completed in early January, 1930, was originally

subject to a mortgage of 72% of its cost—which had, however, been amortized at 4% a year based on its face—and had been depreciated by the straight line method at 4% per year. It was agreed that the building should be taken over at its original cost less depreciation, based on cost, of 2% a year to date. The company offered a lump sum payment of $30,000 for the lease and this was accepted.

The value of the machinery and equipment, purchased July 1, 1928, and depreciated by the straight line method on an estimated life of 15 years, with no scrap value, was to be determined on the basis of a life term of 10 years.

Accruals on January 1, 1933, were noted as follows: (1) interest income $303; (2) interest expense $1,835; (3) sundry accrued expenses $736.

The goodwill was to be valued at 2 years' purchase of the average net profits of the last 3 years, after allowing for partners' yearly salaries as follows: A, $7,000; B, $6,000; and C, $5,000. The partnership agreement had not provided for salaries. Their books showed net profits for the 3-year period of $27,646, $31,072, and $49,647.

The receivables, merchandise, and prepaid items were accepted at their stated values. Cash was to be retained by the partners.

(a) Compute the agreed sales values of the above assets. (Show your computations.)

(b) Prepare journal entries to adjust the partnership books to reflect the values agreed upon.

(c) Draft the sales value balance sheet of the partnership.

(d) Prepare journal entries necessary to record the sale of the business for cash.

2. Alliance Producers, Inc. agreed to buy all of the assets, except cash, and assume the liabilities of A & B, a partnership, whose balance sheet on December 31, 1933, the effective date of the contract, showed as follows:

Assets		*Liabilities and Net Worth*	
Cash	$ 3,000	Notes Payable	$ 10,000
Accounts Receivable	10,000	Accounts Payable	20,000
Notes Receivable	6,000	A, Loan	20,000
Stock-in-Trade	25,000	A, Capital	20,000
Plant and Equipment	60,000	B, Capital	50,000
Goodwill	16,000		
	$120,000		$120,000

The goodwill was brought onto the books 6 years ago when A purchased a one-third interest in the profits of B's business by investing $20,000 in it. The business subsequently being in need of funds, A made a loan to it of $50,000 on January 2, 1930, which has been reduced $10,000 on December 31 each year for the past 3 years except 1933.

The corporation agreed to pay for the goodwill of the firm ten times the average above-normal profits for the last 5 years. The profits of the

partnership for this period were $108,000. All profits above 10% on cash capital and loan investments are to be considered as above-normal profits, partners' salaries of $4,000 a year each are to be allowed as operating expenses, and adjustments are to be made because of under-valuations of the final inventory amounting to $5,000 for each of the first 3 years and over-valuations of $3,000 each during the last 2 years, and also because of over-depreciation of plant and equipment amounting to $1,200 for each of the 5 years. All profits were withdrawn from the business at the end of each year, thus leaving the original capital intact.

For a consideration of $1,000 to be made effective in the final settlement, the vendee released A & B from their guaranty of the firm's receivables. It was agreed that one quarter of the purchase price should be paid in cash into the partnership, one quarter in two equal 6% 6 months' notes, one payable to A, the other to B, and the balance in the $50 par value capital stock of Alliance Producers, Inc. in two equal certificates, one to A and one to B, fractional amounts to be paid by the vendee in cash, and A and B upon division of the net assets to make any necessary adjustments in cash.

(a) Compute the sale price of the firm's goodwill.

(b) Draft journal entries to adjust the firm's books to the sales contract basis.

(c) Draft journal entries to record the sale of the partnership and the distribution of net assets between the partners.

3. A corporation had been paying royalties to an inventor for the use of his patent at the rate of $1.25 per unit of product manufactured. On January 1, 19–, the corporation purchased the patent from him at a price equal to the present worth on a 5% basis of the estimated average royalties which he would receive during the remaining 6 years' life of the patent. For this purpose the estimated production was fixed at the following amounts:

1st year, 9,000 units. 3rd year, 10,000 units. 5th year, 7,000 units.
2nd year, 10,000 units. 4th year, 8,000 units. 6th year, 6,000 units.

(a) Compute the price paid for the patent. (Assume that royalty payments are at the end of each year. See Chapter 8 of text for formula. Note that $1.05^6 = 1.34009564$.)

(b) Set up depreciation schedule for the patent, showing estimated depreciation for the 6 years. (Make a columnar table.)

4. On November 1, 1932, the Mowardko Co. for $125,000 purchased from an inventor a patent which had 11-1/6 years yet to run. The rights to manufacture under the patent had been sold for one-year terms, expiring on December 31, to a number of manufacturers who paid royalties twice a year on July 10 and January 10 based on output for the preceeding 6 months ending June 30 and December 31. The licensing agreements gave the exclusive right to specific territory. The Mowardko Co.

planned a wide extension of licensing arrangements for periods of 5 years with privilege of renewal upon reconsideration of terms, but reserved a choice territory for itself. The new licensing agreements required a lump sum payment of $1,000 for each territory as well as royalties based on output.

The purchase price of the patent included one-half the current period's accrued royalties. The company paid $65,000 in cash and two 6% notes of $30,000 each, the one due on December 15, the other on February 15 of the next year. To help finance these notes, it sold at 90 a block of 600 shares of its $100 par value treasury stock which it had previously bought at 95. It paid its notes upon maturity.

During the company's next fiscal year ending on December 31, 1933, the following transactions relative to its patent and licensing agreements took place: (1) On January 10, it received royalties of $10,250 of which $7,500 represented accruals to November 1. (2) In early January, it issued licenses to 20 manufacturers and in early July to 30 more. (3) Royalty and licensing fees received or accrued for the year amounted to $84,375. (4) It successfully defended its patent rights at a cost of $4,400 and received from the infringing manufacturer damages computed on a royalty basis amounting to $6,000. The company credited all licensing fees to its patents account.

(a) Prepare journal entries covering all of the above transactions.

(b) Prepare journal entries for amortization and depreciation on December 31 of each year through 1934 in order to reflect values which you deem proper.

Assignment 19

✓1. You are asked to prepare annual statements for the U. R. Weiser Co. As a basis for your work they hand you their partially adjusted trial balance of December 31, 19—, which follows:

Cash	$ 31,040	
Government Securities	100,000	
Notes Receivable	75,000	
Accounts Receivable	256,530	
Reserve for Doubtful Accounts		$ 11,500
Inventory Raw Material, January 1	106,250	
Inventory Goods in Process, January 1	128,390	
Inventory Finished Goods, January 1	185,360	
U. S. Iron Co. Stock (500 shares)	20,000	
Accrued Income	1,215	
Prepaid Expense	10,170	
Plant and Equipment	1,694,210	
Depreciation Reserve Plant and Equipment		302,855
Notes Payable—Trade		40,000
Notes Payable—Bank		25,000
Accounts Payable		175,000
Accrued Expense		11,350
Deferred Income		3,085
First Mortgage Bonds, 6% Interest 4/1 and 10/1		400,000

Capital Stock Preferred, 6% cumulative (all outstanding)		500,000
Capital Stock Common (authorized 10,000 shares par $100)		800,000
Surplus		269,985
Sales (net)		2,396,175
Purchases Raw Materials (net)	796,105	
Direct Labor	682,325	
Manufacturing Expense	373,783	
Selling Expense	249,722	
General-Administrative Expense	86,897	
Financial Management Expense	82,853	
Financial Management Income		15,400
Dividends Paid, Common	48,000	
Dividends Paid, Preferred	22,500	
	$4,950,350	$4,950,350

Upon audit and investigation, you gather the following information to be taken into account in the preparation of the company's statements:

(1) During the year, the company discounted $45,000 of its notes receivable of which $20,000 are still unmatured. Among the notes receivable on hand is one for $5,000, two years old, payable on demand by one of the company's officers.

(2) Employees have subscribed at par to 1,000 shares of the company's $100 par value common stock, on which instalment payments of $47,250 have been received and credited to employees' accounts which are included in Accounts Payable. No other record of the subscription transactions was made.

(3) Five thousand dollars received from a customer for merchandise to be shipped next month was credited to Accounts Receivable.

Also included in Accounts Receivable is a charge of $22,000 representing merchandise recently billed f. o. b. destination with instructions that customers pay freight charges and deduct from their invoices. The company estimates these deductions at $205.

A customer who owes $1,200 has failed, the entire amount being considered lost. The company provides for its bad debts by an annual estimate based on sales. No adjustment of this account has been made.

(4) No record has been made of the declaration of the regular quarterly dividend of 2% on the common and that on the 6% preferred stock. These dividends are payable on January 10, next.

(5) The debit in the U. S. Iron Co. Stock account represents the 50% margin the company paid its brokers at time of purchase. The brokers' December 31 report shows the company owes $20,205 which includes commissions and interest. The market value of the stock on December 31, 19—, was 75 5/8.

(6) Inventories on December 31 are: Raw Materials, $126,790; Goods in Process, $132,650; Finished Goods, $187,500.

Not included in the above, you find a recent purchase order for raw materials payable in sterling exchange. The order has been acknowl-

edged and the goods are probably afloat. The cost is £5,800. Rate of exchange at time of order was $3.35625; at December 31 it was $3.39125.

In verifying the final inventory of finished goods, you find that it includes an item of $3,400, the cost of merchandise shipped on consignment. The consignee's preliminary account sales showed that of this amount merchandise costing $2,000 had been sold for $2,450, and that expenses of $50 and commissions of $98 have been deducted from the amount shown due. No record had been made of the report.

(a) Prepare journal entries to make the necessary adjustments.

(b) Draft balance sheet as of December 31, 19–. (Be particularly careful as to the manner of reflecting liabilities.)

(c) Prepare statement of profit and loss for the year.

2. The following balance sheet of Goldberg and Smith as of December 31, 19–, is submitted to you for verification.

Assets		*Liabilities and Net Worth*	
Cash	$ 20,950	Accounts Payable	$ 30,000
Accounts Receivable	47,550	Notes Payable—Banks	10,000
Notes Receivable	15,000	Mortgage Payable	50,000
Inventory:		Depreciation Reserve Plant and Equipment	25,000
Raw Materials	25,400	Goldberg, Capital	70,000
Goods in Process	29,700	Smith, Capital	80,000
Finished Goods	35,900	Goldberg, Personal	7,500
Republic Engine Corporation 7% Preferred Stock (100 shares, par $100)	5,500	Smith, Personal	7,500
Plant and Equipment	75,000		
Land	25,000		
	$280,000		$280,000

Upon audit and investigation you secure the following pertinent information:

(1) On outstanding orders for plant machinery to cost $15,000, prepayments of $3,000 have been made and charged to Accounts Payable. Early delivery is expected.

On delivery equipment costing $6,500, down payment of $675 has been made, the balance being covered by a series of notes secured by chattel mortgage. Only the down payment has been recorded, the charge being to Plant and Equipment.

(2) Wages accrued for $1,200 have been disregarded.

Unclaimed wages during the period amounting to $500 were credited to the Direct Labor account.

(3) On November 1, 19–, as an accommodation to Jay Knight, the partners have indorsed a 4-month, 6% note for $10,000. No record was made in the books.

(4) On December 1, 19–, one of the tenants had paid $450 as rent for three months. The entire amount has been credited to the period ended December 31, 19–.

(5) The partners have been made defendants in a lawsuit arising out of rejection of a shipment of goods bought from samples. The firm's counsel informs you the defense is not strong and that he is negotiating a compromise settlement involving acceptance of the goods for $3,000. The goods were originally billed at $4,000, but not recorded.

(6) During the year, the amount of $750 in interest on notes receivable has been collected and taken into earned income, but of that amount only $550 has been earned.

(7) The balance of accounts receivable is the net amount due after deducting customers' credit balances totaling $15,000, representing deposits and prepayments on special jobs.

(8) No provision for bad debts has been made. You estimate that a reserve of 2% of the accounts and notes receivable should be provided.

(9) The balances of the personal accounts represent the partners' shares of the profits for the current year.

(a) Prepare journal entries to adjust the records.

(b) Draft a corrected balance sheet.

3. The Federal Finance Co. is organized on March 27, 19–, to assist dealers finance the sale of motor cars. The company is authorized to issue 50,000 shares of common stock with a par value of $50 each. These shares are sold at par for cash on March 30.

The company makes advances to dealers under the following plan:

Type of car	"A"	"B"	"C"	"D"
Sales price	$700	$800	$1,000	$1,200
Finance charge	60	63	75	89
Total cost to buyer	$760	$863	$1,075	$1,289
Buyer's cash payment to dealer	220	263	355	449
Face of notes given by purchaser	$540	$600	$ 720	$ 840

As noted above the buyer of a car makes a cash payment to the dealer of the amount shown for the type of car bought. He executes 12 non-interest bearing notes of equal amount, their total comprising the balance due, covering financing fee and balance of purchase price of car. One note is payable each month, the maturities thus ranging from 1 to 12 months. The notes are secured by chattel mortgage on the car. Upon the dealer's transfer of these notes by indorsement, the Finance Co. advances him their face value less the amount of the finance charge. Upon the sale of a car, the dealer may thus be provided with cash equal to its sale price.

On this basis, the company made cash advances to dealers, at the dates and on the number of cars of each type shown in the schedule below:

	"A"	"B"	"C"	"D"
April 1, 19—	200	230	200	210
May 1, 19—	250	240	230	205
June 1, 19—	260	250	260	260

The company protects its equity in each car by carrying fire and theft insurance thereon for which it pays annual premiums as follows: on type "A" car, $22; on type "B" car, $24; on type "C" car, $29; on type "D" car, $34.

The company had equipped an office at a cost of $4,000 and had made other cash expenditures of $8,000 for operating supplies and expenses.

All notes were collected as they matured.

On June 30, the company closed its books to determine its profit for the 3 months. At that time accrued expenses, including depreciation of $120 amounted to $750. Office supplies on hand amounted to $250, and it was decided to create a reserve for bad debts of 1% of the outstanding notes.

(a) Prepare journal entries for all of the above transactions.

(b) Make a computation of deferred income. (Finance charges are to be allocated on the basis of the notes outstanding at end of each month.)

(c) Draft balance sheet as of June 30, 19–. (Be sure to include unexpired insurance premiums.)

4. A correspondence school charges $90 for each course of 30 lessons. The school offers 5 courses in mathematics of high school character. At December 31, 19–, the number of students registered for each of these courses was respectively: 150, 120, 100, 80 and 50.

30% of the students had completed the first 20 lessons of each course at that date, 40% the first 15, and the remainder the first 10.

A part of the school's profits arises from the failure of students to complete the course within the 2 years prescribed time; no refunds being made and the school being released from the costs of instruction for the uncompleted portion of the course. It is estimated that 10% of the gross income is the amount of the profit so earned from lapsed courses.

(a) Prepare a statement showing the amount of unearned income at December 31, 19–. (Start with gross income and show deducted the parts equitably earned this period.)

(b) Under what classification will such unearned income appear on the balance sheet?

Assignment 20

✓1. The following trial balance as of December 31, 1933, is taken from the books of the Roberts Co.:

Cash	$ 400,000.00	
Securities	500,000.00	
Receivables	900,000.00	
Inventories, December 31, 1933	400,000.00	
Other Current Assets	200,000.00	
Fixed Assets	4,000,000.00	
Accounts Payable		$ 155,000.00
Notes Payable		300,000.00

Bonds Payable		$ 1,620,000.00
Bond Premium and Discount		47,125.55
Reserve for Doubtful Accounts		20,000.00
Capital Stock Common (15,000 shares authorized)		1,500,000.00
Capital Stock Preferred (20,000 shares authorized)		1,200,000.00
Surplus		549,442.49
Depreciation Reserve Fixed Assets		700,000.00
Sales		4,800,000.00
Sales Discount	65,000.00	
Cost of Goods Sold	3,000,000.00	
Purchase Discounts		70,000.00
Selling Expenses	476,725.00	
General Administrative Expenses	989,447.63	
Interest Cost	57,395.41	
Interest Income		27,000.00
	$10,988,568.04	$10,988,568.04

All adjustments have been made with the exceptions noted below:

(1) The notes payable, for which the securities have been pledged as collateral, bear interest at 6% and are due July 1, 1936. The last interest payment was made on July 1, 1933.

(2) Additional provision of ½% of sales is to be made for uncollectible accounts.

(3) Bonds payable account is found to comprise the following issues:

First Mortgage Bonds, 5½%, interest payable semi-annually, issued January 1, 1929, to yield 5%. The bonds have a par value of $1,000,000 and are due January 1, 1949.

Debenture Serial Bonds, 5½%, interest payable semi-annually, issued January 1, 1931, at an average price of 97, 150 of a par value of $1,000 having been issued. They are payable serially in lots of 15 beginning on January 1, 1932, and at every anniversary date thereof until retired. The bonds due January 1, 1934, have been received but have not been redeemed.

Equipment Trust Bonds, 6%, interest payable quarterly, issued at par on April 1, 1922, due April 1, 1942, secured by a lien on specific equipment, the purchase price of which, viz., $300,000, being included in the Fixed Assets account. Depreciation, booked through December 31, 1933, amounts to $175,250. There are $300,000 of these bonds outstanding.

Convertible Debenture Bonds, 4¾%, interest payable semi-annually, issued January 1, 1933, to yield 5%, due January 1, 1943. There are $200,000 of these outstanding. They are convertible, at the option of the holder, on any interest date, on the basis of 10 shares of preferred stock for each $1,000 bond plus its accrued interest on date of conversion. $50,000 of these bonds are in the company's possession awaiting conversion.

(4) An analysis of the Interest Cost account for the year shows the following entries:

Interest cost of First Mortgage bonds	$26,365.57
Interest cost of Debenture Serial bonds	3,627.27
Interest cost of Equipment Trust bonds	13,500.00
Interest cost of Convertible Debentures	4,902.57
Interest cost of Notes Payable	9,000.00

On the First Mortgage and Convertible Debenture bonds premium and discount are amortized on a compound interest basis. On the Serial Debentures, the bonds outstanding method is used.

(5) Dividends of 6% on the preferred and 5% on the common were declared December 15, 1933, payable January 15, 1934, to holders of record as of December 29, 1933.

(a) Compute the accrued interest on December 31, 1933. (It will be necessary to know the unamortized premium and discount on July 1, in order to compute the effective interest by applying the effective rate to the carrying or book value of the bonds. The analysis of the Interest Cost account provides the needed information. Since it is carried at the effective rate, the base on which that rate was applied may be found by simple division. It will therefore not be necessary to compute the sale price of the bonds and prepare amortization schedules for each issue. The accrued interest, on the effective basis, on the serial bonds will have to be computed by the bonds outstanding or dollar-year method.)

(b) Prepare journal entries necessary to record all of the above adjustments. (Be sure to show as a part of the explanation of all entries, where needed, the computations by which the amounts used were determined. Set up separate accounts for each bond issue and its relative premium or discount.)

(c) Draft balance sheet as of December 31, 1933.

(d) Draft statement of profit and loss for the year.

2. The Seven Three Seven Front Street Co., owner of a high class apartment property, defaulted on its amortization instalment and bond interest due on an issue of bonds secured by its property, which was sold under foreclosure on June 1, 1933, and realized $700,000. The company's records gave the following information at time of foreclosure, none of the adjustments for the current period having been made:

(1) The site cost $50,000 when purchased 20 years ago. On March 1, 1925, when the structure was completed, the site was appraised for $150,000 and was so carried in the accounts.

(2) The structure cost $893,275.35 when completed, and had been depreciated at the rate of 3% a year by the straight line method.

(3) In financing the undertaking, a serial bond issue for $750,000 had been sold for $710,000. The bonds bore interest at 5½%, payable semi-annually, and were redeemable beginning 5 years from date of issue in blocks of $30,000 each year. The date of issue was March 1, 1925. The

company had amortized its bond discount by the bonds outstanding method.

(4) There were unpaid taxes of $37,950, water rents of $500 due the city, and mechanics' bills for repairs of $10,500 which had been reduced to judgment. The purchaser of the property agreed to assume all these bills.

(5) An unexpired insurance policy, showing a balance of $755.30 on January 1, 1933, and with a prorated value of $64.50 on June 1, 1933, was taken over by the purchaser at that value.

(6) Expenses of defending the foreclosure were $1,500.

(a) Compute the March 1, 1933, balances of the bonds payable and bond discount accounts.

(b) Compute the book value of the property at date of foreclosure sale. (The company's fiscal year ended December 31.)

(c) Draft the journal entries necessary to record all of the above transactions. (Give adequate explanations.)

3. Under the terms of its indenture a convertible bond issue carries the provision that on any interest date beginning 3 years from date of issue, each $1,000 bond plus the current period's accrued interest shall be convertible at $110 per share, into the company's common stock, which has a carrying value of $100 per share. The bonds bore 5% interest and $500,000 were sold 6 years ago at 92 to yield 6%. Conversions were: $30,000, 3 years ago; $50,000, 2 years ago; $20,000, 1 year ago; and $1,000 this year. In the event of fractional shares, the bondholder had the option of receiving cash from the company for the fraction at the agreed conversion price or of purchasing at the market the fraction needed to complete his share. On the dates of these conversions the market prices of the common stock were, respectively: 110½, 120, 110, and 100. Those electing to receive cash for their fractional shares at the 4 conversion dates were, respectively, the holders of $10,000, $25,000, $12,000, and $1,000 lots.

(a) Draft the entries necessary to record the conversions for the 4 years.

4. On February 1, 19—, a company issues $100,000 of 5-year 6% bonds to yield 7%. Interest is payable January 1 and July 1 of each year. The bonds mature and are payable January 1.

(a) Compute the sale price of the bonds. (Note: $1.035^{10} = 1.41059876$.

(b) Prepare an amortization schedule for the bonds till maturity.

(c) Draft entries for the sale of the bonds, the last interest payment, and the redemption of the bonds.

Assignment 21

1. A, B, and C are partners sharing profits equally after a 6% allowance for interest on capitals. Their balance sheet of December 31, 1928, is shown below:

A, B, & C Balance Sheet
December 31, 1928

Cash	$ 20,000	Notes Payable	$ 20,000
Receivables $50,000		Accounts Payable	10,000
Reserve for D/A 1,000		A, Loan, 8%	30,000
	49,000	A, Capital	10,000
Merchandise	31,000	B, Capital	60,000
Plant & Equip. 100,000		C, Capital	30,000
Depr. R. P. & E. 40,000	60,000		
	$160,000		$160,000

A desires to retire and B and C agree to purchase his interest on the following terms and continue the business: the plant and equipment has a present value of $84,000; A is to receive $30,000 for his capital interest, payable $10,000 in cash at once and by two 6% notes each for $10,000, the one signed by B and due 6 months hence, the other by C and due in 1 year; A will continue his loan at 8%, to be completely liquidated, however, by December 31, 1930, instalment payment of any amount being permitted at any time. The cash payment was made by the firm as agreed and notes were given to A. B and C agree to continue on the same terms as to profit sharing.

B and C conduct the business for 5 years, at the end of which time their financial condition appears as follows:

B & C Balance Sheet
December 31, 1933

Cash	$ 2,000	Notes Payable	$ 35,000
Receivables	153,000	Accounts Payable	40,000
Merchandise	60,000	B, Capital	168,000
Plant and Equipment	60,000	C, Capital	68,000
Goodwill	36,000		
	$311,000		$311,000

Finding collections slow and sales falling off and being in need of new capital, because of early maturing obligations, the partners interest D in the business. He agrees to buy a third interest in the capital and profits on the basis of an examination of the books and an appraisal of the assets. After adjustment of the profits because of any changes in the value of the tangible assets and after monthly salaries of $400 each for B and C, and 6% interest on their capitals, goodwill is to be valued at 60% of such adjusted profits for the past 5 years.

The following conditions are disclosed by the examination:

(1) As to receivables B and C carried no reserve for doubtful accounts but wrote off bad debts only when found uncollectible. $30,000 of the receivables are more than 2 years past due and are not expected to realize more than 15%; $60,000 are more than 1 year old and will realize 50%; the balance should realize 90%.

(2) The merchandise contains a considerable amount of old, out-of-date and shopworn stocks, and should be valued at $45,100.

(3) The plant and equipment had not been depreciated since A retired, B and C believing that adequate repairs had maintained the original values. Upon D's insistence it is agreed that depreciation shall be estimated at 5% a year, based on the appraised value at the time of A's retirement. This was partially offset, however, by an estimated appreciation of plant land of $10,000 to be given effect.

(4) Profits for the past 5 years as shown by the partnership books, after interest credited to capital, but before salaries and other adjustments, amounted to $170,000.

To secure his one-third interest in the partnership, D agrees to contribute cash equal to one-half the capitals of B and C invested in tangible assets but, because of the precarious condition of the business, for his share of the goodwill only half as much cash as would otherwise be necessary to secure his third interest in it.

(a) Draft journal entries to record the above adjustments.

(b) Prepare balance sheet of B and C after adjustment.

(c) Prepare a statement showing the amount of D's investment.

(d) Draft the net worth section of the balance sheet of the new firm, the investment entry of D, and any necessary capital adjustment entries.

2. After operating only a short time as a partnership, B, C, and D decide that it will be advantageous to convert their business into a corporation. The partners desire, however, to retain their equal voices in managing the business. To do so they decide to issue a 6% cumulative preferred stock, non-voting, for the amount of any partner's capital interest in excess of that of the partner having the lowest capital, common stock to be given in equal amounts for the remaining capital interests. Each partner is to withdraw in cash the amount of any fractional shares allotted to him under this arrangement. Preferred shares are to have a par value of $100, the common $50 and the authorized capital is to be such as to provide for $50,000 of unissued preferred and $100,000 of unissued common or as near these amounts as will make the authorized capital round amount to the nearest $10,000. All allotments of stock are to be based on the capital accounts as at the beginning of the partnership, none of the partners having withdrawn any funds since then.

(a) Compute the capitalization of the corporation.

(b) Prepare a columnar statement to show the allotment of stock.

(c) Draft journal entries to open the books of the corporation, on the assumption that the partnership ledger will be used by the corporation.

3. The net worth of a corporation consists of the following:

2,000 shares, par value $100, 7% non-cumulative, and non-participating preferred stock	$200,000
20,000 shares no-par common stock	560,000
Premium on preferred stock	10,000
Surplus	65,500
Total	$835,500

The preferred stockholders have received no dividends for the past year. Their stock is to be redeemed at $110 per share at the option of the company.

(a) Compute the book value of a share of each class of stock.

4. The net worth of the Marion Corporation is as follows:

5,000 shares 6% cumulative and participating preferred stock, par value $100	$ 500,000
4,000 shares 7% cumulative and non-participating preferred stock, par value $100	400,000
30,000 shares no-par common stock, stated value $20	600,000
Premium on 6% cumulative and participating preferred stock	15,000
Paid-in surplus on common stock	150,000
Surplus	175,000
	$1,840,000

Neither class of preferred stockholders has received any dividends for the past year.

The agreement with the holders of the 7% cumulative and non-participating preferred stock provides for its redemption at 103 at the option of the company.

The agreement with the holders of the 6% cumulative and participating preferred stock states that they are to share with the common stockholders, in the ratio of the carrying value of the respective stocks, in any surplus that remains after the common stockholders have received an annual dividend of $2 per share.

(a) Draft a statement to show the computation of the book value of each class of stock.

Assignment 22

1. On August 1, 1932, the Harrison Chain Stores, Inc., was organized with an authorized capital stock of 1,000 shares of 7% cumulative, participating preferred, of $100 par value and 5,000 shares of no-par common.

On August 10, the incorporators subscribed for 1,500 shares of the common stock at $40 per share, paying their subscriptions in cash on August 19. The directors authorized this and all subsequent common stock to be booked at $25 per share. Certificates were issued. Organization expenses of $2,500 were paid on August 25.

On August 29, 800 shares of the preferred stock were subscribed for at 110, payable 10% in cash and the balance in three equal monthly instalments.

On September 20, an additional 2,000 shares of common were sold at 48, were paid for on September 28, and certificates issued.

On September 29, the first instalment on the preferred was called and was paid in cash on October 2.

On October 25, 500 shares of common were sold for cash at 50 and certificates issued.

On October 29, the second instalment on the preferred stock was called and was paid on November 1.

On November 10, 500 shares of common were sold at 51, were paid for on November 12, and certificates were issued.

On November 29, the third instalment on the preferred was called. All subscribers except one paid their instalments on December 2 and the certificates were issued. The subscription of the defaulting subscriber was for 60 shares on which all previous payments had been made. Under the laws of the state of incorporation the company was liable for the return of any excess of the sum received from the sale of such stock at auction over the amount of the unpaid portion plus expenses incurred.

On December 23, the remaining shares of the common stock were sold for cash at 52 and the forfeited preferred stock was sold at 108, the expense in connection therewith being $125.

On May 15, 1933, the company purchased 450 shares of its common stock at 44. Of this stock 100 shares had been originally sold at 48, 200 at 50, and 150 at 52.

On July 28, 250 shares of its treasury stock were sold at 49, only the 10% down payment being received, the balance due on August 10.

At the end of its first fiscal year, July 31, 1933, the corporation earned a net profit of $65,800. It then declared a dividend of 7% on the preferred stock and $3 per share on the common, payable on August 12.

(a) Draft journal entries, with explanations, needed to record the above transactions.

(b) Set up the net worth section of the company's balance sheet as of July 31, 1933.

2. A corporation is organized on March 1, 19–, with an authorized capital stock of 10,000 common shares without par value. One half of the stock is issued for property appraised at $175,000. The remainder is sold at $27 per share, both amounts being credited to capital stock account.

On December 31 of that year the corporation purchases 100 shares of its own stock at $32 per share, the surplus at that date being $50,000. Within the next six months the company sells 50 of these shares at $37 per share and at the end of the year gives the remaining 50 to its officers as bonuses, the stock having a market value then of $40 per share, its book value being $33.

(a) Prepare all necessary journal entries to record the above transactions.

3. A corporation issues 500 $1,000 bonds. The purchaser is to have the option of either buying a bond at 96 or at par with a bonus of ¼ share of common treasury stock. The par value of the common stock is $100,

its book value is $150, and its market value $175. One-fifth of the bonds are sold at 96 and the remainder at par.

(a) At what price should the bonus stock be recorded?

(b) Prepare journal entries to record the above transactions.

4. The post-closing trial balance of June 30, 19–, taken from the books of the Realty Associates, Inc., showed as follows:

Cash	$ 50,000	
Securities—Short-term (market value $52,000)	50,000	
Accounts Receivable	275,000	
Stores for Construction and Repairs	25,000	
340 Beekman Street	382,500	
Treasury Stock Common	5,000	
Plant and Equipment	125,000	
Depreciation Reserve Plant and Equipment		$ 60,000
Organization Expense	2,500	
Discount on Preferred Stock	15,000	
Notes Payable		30,000
Accounts Payable		125,000
Accrued Expenses		5,000
Capital Stock Preferred Unissued, $100 par	200,000	
Capital Stock Preferred Authorized		500,000
Capital Stock Common Unissued, no par	125,000	
Capital Stock Common Authorized, no par		375,000
Paid-in Surplus, Common		150,000
Earned Surplus		10,000
	$1,255,000	$1,255,000

Upon examination of the records, it appears that the preferred stock is cumulative at 6% and dividends are in arrears 3 years. The charter authorizes the issue of 15,000 shares of common stock which the directors ordered booked at $25 per share. Accounts receivable comprise unpaid tenant rents, $58,000; construction in process, at cost, $72,000; officers' unpaid subscriptions to common stock (1,000 shares at $45), $30,000; employees' unpaid subscriptions to preferred stock (250 shares at $90), $10,000; call #3 on preferred stock, $25,000 (being the last call on 1,000 shares sold at par); the balance representing claims against clients for contracts recently completed. Employees' subscriptions to stock are being paid by deductions from the weekly payroll. All previous calls on preferred subscribers have been promptly paid. No payments have been made on officers' subscriptions for 2 years. Treasury stock account represents the cost of 100 shares of common stock purchased from a retiring executive. All outstanding stock has been fully paid for.

(a) Prepare such journal entries as you deem necessary properly to reflect the above information.

(b) Make a tabular statement—columnar—showing your computation of the fully paid outstanding stock of each class.

(c) Draft a balance sheet as of June 30, 19–.

5. Co. R had outstanding an issue of 50,000 shares of no-par common stock sold for $30 per share, of which the stated capital was declared

to be $1,000,000. Its earned surplus was $625,000. It had taken advantage of the depressed condition of the stock market and bought 18,000 shares of its own stock at an average price of $7.50 per share, 16,000 shares of which it later sold to provide funds to finance an increasing volume of business. Sales were made: 3,000 shares at 10; 4,000 shares at 12.50; 8,000 shares at 18; and 1,000 shares at 25.

(a) Prepare journal entries to record the above transactions.

(b) Draw up the net worth section of the company's balance sheet.

Assignment 23

1. The Jason Mfg. Co.'s trial balance on July 31, 1933, was:

Cash	$ 41,475	
Notes Receivable	22,050	
Accounts Receivable—Trade	205,000	
Reserve for Doubtful Accounts		$ 500
Raw Materials Inventory, August 1, 1932	40,780	
Goods in Process Inventory, August 1, 1932	66,725	
Finished Goods Inventory, August 1, 1932	97,525	
Unexpired Insurance—August 1, 1932	700	
Land	20,500	
Buildings	100,000	
Depreciation Reserve Buildings		15,000
Machinery	125,000	
Depreciation Reserve Machinery		22,500
Delivery Equipment	12,500	
Depreciation Reserve Delivery Equipment		5,000
Tools	7,900	
Office Furniture and Fixtures	9,050	
Depreciation Reserve Office Furniture and Fixtures		3,200
Patterns	14,600	
Depreciation Reserve Patterns		3,800
Special Patterns and Molds	4,000	
Patents (12 yrs. to run from August 1, 1930)	9,600	
Patents (14½ yrs. to run from August 1, 1930)	14,500	
Notes Payable		20,000
Accounts Payable		71,000
Capital Stock—Common		250,000
Capital Stock—6% Cumulative Preferred		100,000
Surplus		222,026
Sales, Net		1,114,950
Purchases, Net	539,620	
Direct Labor	335,000	
Manufacturing Expenses	78,413	
Selling Expenses	113,705	
General Administrative Expenses	97,447	
Financial Management Expenses	20,564	
Financial Management Income		12,028
Claims Paid	5,000	
Land Sales		2,500
Sale of Delivery Equipment		1,500
Commission on Sale of Delivery Equipment	50	
Contract Receivable—Elite Trading	60,300	
Contract Sales—Elite Trading		198,000
	$2,042,004	$2,042,004

The Land account carries the cost of a plot of land, 400 feet by 250 feet, of which a parcel measuring 50 feet by 150 feet has been sold for $2,500. The proceeds received from the sale have been credited to the Land Sales account.

On July 1, 1933, one-half portion of one of the buildings was destroyed by fire. The damaged building was completed on February 1, 1931, at a cost of $10,000 and had been insured on the latter date for $6,000 for a period of 3 years at a total premium of $36. The insurance policy contained an 80% coinsurance clause. The damage was compensated for on the basis of the cash value of the building which was estimated to have been $8,000 at the time of the fire. A check in settlement of the loss was received on July 29, 1933, but was not recorded. Nor had any record yet been made of the fire loss.

The special patterns and molds were purchased during the year for the manufacture of 55,000 units of a specially designed product which the company had contracted to deliver to the Elite Trading Co. for $3.60 per unit. The unit cost of manufacturing this merchandise was found to be 1½ times the unit cost of the regular product, disregarding the charges for depreciating the regular and special patterns. Three-quarters of the quantity contracted for and 315,000 units of the regular product had been manufactured and shipped. When shipments of the special product commenced, the entire contract was brought onto the books and credits were recorded as payments thereon were received.

The amount in the Claims Paid account was paid on September 15, 1932, to a factory worker who was injured. The company was not protected against such accidents at that time nor did it carry its own compensation insurance.

The credit to the account, Sale of Delivery Equipment, represents the proceeds received from the sale on June 1, 1933, of a truck purchased on January 1, 1931, for $2,500. A commission of $50 was paid for the sale of the truck and charged to Commission on Sale of Truck. The cost of the truck sold had not been removed from the asset account.

The following inventories, accrued and deferred items were to be taken into account in closing the books on July 31, 1933:

Raw materials	$43,240	Accrued expenses:	
Goods in process	63,140	Direct labor	$5,750
Finished goods	117,000	Prepaid expenses:	
Tools	5,000	Factory expenses	430
Accrued expenses:		Stationery and printing	750
Salesmen's salaries	$1,400	Advertising	1,500
Factory expenses	180	Unexpired fire insurance	340
Indirect labor	445	Interest expense	75

Stationery and printing and unexpired insurance are to be classified, for purposes of adjustment, as general administrative expense items.

The finished goods inventory of July 31, 1933, stated above, included merchandise at cost of $15,000 which had been sold for $18,000 and was

being held for delivery on September 1, 1933. This merchandise has been billed and is included in Accounts Receivable.

Reserve for Doubtful Accounts was increased to 2% of Accounts Receivable and depreciation was to be charged at the following annual rates:

Patents, as indicated in the trial balance	
Buildings	5% of original cost
Machinery	10% " " "
Delivery equipment	20% " " "
Office furniture and fixtures	10% " " "
Patterns	20% " " "

It was also estimated that additional sales discounts would be taken by 75% of the customers who purchased $45,800 worth of merchandise during the last ten days of July, the company's terms of sale being 2/10, n/30.

(a) Prepare such journal entries, with full explanations where needed, as you deem necessary to adjust the books. (In should be noted that some data are given which are not needed for the required solution.)

(b) Draft a pro-forma balance sheet as of July 31, 1933, supported by a formal statement of surplus.

2. The Household Service Co. during 1933 made collections totaling $685,000, of which, however, $65,000 represented 1932 sales. Total sales of 1932 had amounted to $950,000 and cost of those sales $718,000. At the end of the current year its outstanding instalment receivables covering current year's sales amounted to $420,000. The total cost of goods sold during 1933 was $786,032 and the gross profit percentage margin was the same as for 1932.

(a) Compute the profits realized on collections made during 1933.

(b) Draft the journal entries, with explanations, to record the sales, collections, and realized profits for 1933.

3. The December 31, 19–, report to the stockholders of the Chilperu Mining and Manufacturing Co. showed net profits for the year of $1,500,000 and common stock outstanding 200,000 shares, no par, carrying value $47.50 per share and paid in surplus of $12,500,000. Upon investigation the following information was made available: (1) during the current year the company had sold one of its smaller mining properties at a profit of $1,000,000; (2) the short term investments account carried 40,000 of its own shares on which it had received dividends of $8 a share during the year; (3) through trading in its own stocks it had received $150,000 more cash than it had paid for them; (4) its inventories for the past 4 years were found to have been overstated $40,000 a year. The overstatement of the current year's inventory was $75,000 and depletion of $50,000 had been omitted from the accounts.

(a) Make a statement of corrected operating profits for the year, showing all adjustments.

(b) Compute the earnings per share of stock.

4. The following trial balance which has been partially adjusted was taken on December 31, 1933, from the ledger of the Easy Payment Co., which sells its merchandise on the instalment plan:

Cash	$ 46,990	
Inventory, Jan. 1, 1933	40,000	
Purchases	362,600	
Sales		$585,000
Instalment Customers—1932	45,000	
Instalment Customers—1933	285,000	
Prepaid Expenses	2,560	
Selling Expenses	105,300	
Office Expenses	50,000	
Financial Management Expense	2,700	
Furniture and Fixtures	7,560	
Accounts Payable		58,000
Accrued Expenses		3,550
Purchase Returns		1,600
Depreciation Reserve Furniture and Fixtures		2,450
Recovered Merchandise (1932 sales)	20,000	
Loss on Recovered Merchandise (1932 sales)	12,000	
Surplus		59,310
Deferred Profits—1932		50,800
Capital Stock, Common		225,000
Office Rent	2,000	
Store Rent	4,000	
	$985,710	$985,710

The merchandise on hand on December 31, 1933, amounts to $43,400, which includes the value of all unsold recovered merchandise on hand.

At the beginning of the year the Instalment Customers—1932 account showed a balance of $240,000 and it was credited during 1933 with recovered merchandise amounting to $32,000.

The account, Deferred Profits—1932, represents the unrealized gross profit on 1932 sales and has not been adjusted since January 1, 1933.

(a) Draft a statement to show the amount of 1932 profit realized during 1933.

(b) Draft a statement of profit and loss for the year 1933.

(c) Compute the deferred profit for 1933.

(d) Prepare the necessary journal entries to adjust the accounts as of December 31, 1933.

(e) Draft balance sheet as of December 31, 1933.

Assignment 24

1. The December 31, 1931, trial balance of the A. L. Lieber Manufacturing Company is given below:

Factory Supplies	$ 22,500.00	
Advertising	15,250.00	
Rent Income		$ 1,150.00
Interest Income		935.00

Sales		1,339,450.00
Sales Returns and Allowances	47,800.00	
Goods Transferred to Selling Department	1,112,278.77	
Land	27,500.00	
Tools	12,000.00	
Machinery	60,000.00	
Factory Buildings	75,000.00	
Patents (Expire 6½ years from Jan. 1, 1931)	13,200.00	
Officers' Salaries	25,000.00	
Salesmen's Salaries	33,570.00	
Office Clerks' Salaries	22,770.00	
Shipping Clerks' Salaries	15,520.00	
Factory Superintendence	18,000.00	
Direct Labor	334,890.00	
Indirect Labor	23,775.00	
Salesmen's Commissions	17,100.00	
Salesmen's Traveling Expenses	5,450.00	
Inventory Valuation		780.00
Entertainment of Customers	1,290.00	
Purchases of Raw Materials	627,550.00	
Purchase Returns—Raw Materials		2,700.00
Trade Customers	204,580.00	
Notes Receivable	15,000.00	
Insurance	2,300.00	
Taxes	3,150.00	
Office Equipment	15,800.00	
Sales Discounts	26,390.00	
Interest Expense	5,350.00	
Bonds Payable		50,000.00
Premium on Bonds Payable		1,000.00
Shipping Supplies	9,000.00	
Notes Payable		35,000.00
Accounts Payable		73,000.00
Purchase Discounts		15,520.00
Premium for Bonding Office Employees	325.00	
Freight-Out	1,275.00	
Delivery Equipment	15,000.00	
Delivery Expense	12,700.00	
Freight-In	17,650.00	
Telephone, Telegraph, and Postage	2,975.00	
Collection and Exchange	275.00	
Stationery and Printing	2,775.00	
Heat, Light, and Power	18,540.00	
Building Repairs	750.00	
Machinery Repairs	500.00	
Sundry Factory Expense	1,595.00	
Cash on Hand	355.00	
Bank of Hudson Lake	55,750.00	
Miscellaneous Selling Expenses	850.00	
Office Supplies	2,750.00	
Miscellaneous Office Expenses	825.00	
Temporary Investment:		
Darling Co. Stock (50 shares at cost)	4,000.00	
Dividend Received		400.00
Goods Transferred from Factory		1,112,278.77
Raw Materials Inventory, Jan. 1	27,450.00	

Goods in Process Inventory, Jan. 1	29,720.00	
Finished Goods Inventory, Jan. 1	39,780.00	
Office Building	35,000.00	
Depreciation Reserve Machinery		24,000.00
Depreciation Reserve Factory Bldgs		7,500.00
Depreciation Reserve Office Bldg		8,750.00
Depreciation Reserve Office Equipment		7,900.00
Depreciation Reserve Delivery Equipment		3,000.00
Capital Stock		300,000.00
Surplus		81,523.00
Reserve for Doubtful Accounts	2,033.00	
	$3,064,886.77	$3,064,886.77

The following information is available and is to be taken into account in closing the company's books:

(1) The debit to Goods Transferred to Selling Department is the cost, to the latter department, of the merchandise transferred from the factory during the entire year. This amount includes a profit, to the manufacturing department, of 2% above factory costs estimated at the time goods are completed and transferred. The inventory of finished goods on December 31, 1931, given below, also includes this profit. The Merchandise Valuation account is set up to eliminate this unrealized profit in inventories.

(2) The bonds payable were issued on July 1, 1931, run 10 years, bear 6% interest, payable January 1 and July 1. The premium is to be amortized on a straight line basis.

(3) Inventories on Dec. 31, 1931, were as follows:

Raw Materials	$26,300	Stationery and Printing	$ 375
Goods in Process	27,850	Shipping Supplies	1,000
Finished Goods	42,840	Factory Supplies	2,500
Office Supplies	500	Tools	9,000

(4) Depreciation by the straight line method is estimated at the following rates:

Machinery	10%	Delivery Equipment	20%
Factory Buildings	2%	Patents, on basis of unexpired life.	
Office Building	5%		
Office Equipment	10%		

Of the outstanding accounts receivable it is estimated that 2% will prove uncollectible.

(5) Accrued expenses were:

Interest on bonds payable	$1,500	Taxes	$ 250
Salesmen's salaries	750	Interest on notes payable	190
Office clerks' salaries	575	Federal Income Taxes—See "(10)" below.	
Shipping clerks' salaries	325		
Factory direct labor	430		

(6) Advertising $1,750 and insurance $800 were prepaid.

(7) Accrued interest income amounted to $100.

(8) The present market quotation on Darling Co. stock was 78.

(9) The following expense distributions are to be made:

Items	Manufacturing	Selling	General
Building Repairs and Heat, Light, and Power	90%	5%	5%
Office Building and Equipment Depreciation		50%	50%
Insurance	50%	20%	30%
Taxes excluding income taxes	70%		30%

(10) The board of directors has authorized a bonus to the president of the company, the amount to be 10% of the net profits determined after giving effect to this bonus and federal income taxes of 12% of the net profits in excess of the exemption of $3,000.

(a) Prepare journal entries to adjust the books in accordance with the above data. (To set up the inventory of finished goods at 102% of cost, as given, Finished Goods Inventory, December 31, will be charged at 1.02, Cost of Sales will be credited at 1.02, Goods Transferred from Factory will be charged at .02, and Inventory Valuation will be credited at .02. Transfer to Cost of Sales the account, Goods Transferred to Selling Department, which serves as a purchase account for the selling department. The adjustment for bonus and income tax will have to wait until the net profit before such expense has been determined.)

(b) Prepare a work sheet to determine profits before bonus and tax. (For the operating activities, provide columns for Manufacturing, Selling and Profit and Loss. Extend Cost of Sales into the debit Selling column where it will offset sales and will be combined with the various selling expenses to determine net profit for the selling department. Extend Goods Transferred from Factory into the credit Manufacturing column where it will be combined with the January 1 and offset by the December 31 balances of the Inventory Valuation account in order to eliminate the unrealized profit in inventories, and will be offset by the actual costs of manufacture. The balances of the Manufacturing and Selling columns, showing net profits of those two departments, will be transferred to Profit and Loss where the net profit before tax and bonus will be developed.)

(c) Compute the amount of the bonus and income tax liabilities. [This will require the use of simultaneous equations in two unknowns. If P is the profit before bonus and tax; b, the bonus; t, the tax and $100, the estimated loss from market valuation of Darling Co. stock, which is not an allowable deduction from income under the income tax law: (1) $10\%\ (P-t-b)=b$, and (2) $12\%\ (P+\$100-b-3{,}000)=t$. After P is determined from the work sheet, the bonus and tax can be computed from equations (1) and (2). Adjusting entries should now be made for these two items.]

(d) Draft pro-forma balance sheet as of December 31, 1931.

(e) Draft condensed statement of profit and loss for the year, supported by schedules. [Follow the instructions under (b) and show the

profit of the two departments, Selling and Manufacturing, the sum of these two amounts being followed by the other groups, General Administrative, etc.]

(f) Prepare the necessary closing entries.

2. In verifying the Welcher Manufacturing Co.'s net profit of $24,655 for the year 1933, you found the following errors and omissions:

(1) The company had overvalued its January 1 inventory by $20,000.

(2) It valued the final inventory at cost, $85,000, although the cash-realizable value thereof was $75,000.

(3) A depreciation charge of $2,500 on an idle machine was omitted from the annual depreciation charge.

(4) No provision for bad debts was made. In examining the customers' accounts you find that $4,500 of them are now uncollectible and that an additional $5,000 of them will probably be so during the next period.

(5) The amount of $2,500 which was received from the sale of a plot of land, 50 feet by 100 feet, had been credited to the Land account. This parcel was part of a tract of land, 400 feet by 100 feet, which the company had purchased 2 years ago for $8,000.

(6) A dividend of 8% on the company's 1,000 shares of $100 par value common stock was declared payable January 1 of the following year but had not yet been recorded. Also dividends payable January 1, on 1,000 shares of 7% cumulative participating preferred stock, par value $100, had not been recorded. These dividends represented the only distribution of profits to stockholders during the past 2 years.

(a) Prepare journal entries to make the adjustments required for the above data.

3. Reval and Rigal kept their books by single entry. At the end of the year, the following information is available from their books and other sources to show their financial condition:

Cash on hand	$ 5,350	Accrued Income	$ 65
Accounts Receivable	31,730	Accrued Expenses	4,750
Furniture and Fixtures	3,150	Notes Receivable	7,500
Prepaid Expenses	3,750	Merchandise on hand	16,000
Notes Payable	10,000	Reval, Capital	18,750
Accounts Payable	9,750	Rigal, Capital	19,300

Analysis of the partners' capital accounts showed the following entries for the current year: (1) Debits for merchandise, Reval $900, Rigal $700; for cash, Reval $1,500, Rigal $2,000; (2) Credits for salaries allowed, Reval $2,400, Rigal $2,400.

(a) Prepare a statement to show the net profit for the year.

(b) Prepare statements of the partners' capital accounts at the close of the year. (Profits are shared equally.)

4. The profit and loss statement of the Hilltop Manufacturing Co. for the year 1933 showed a net profit of $67,655 which increased the

Surplus account to $180,000. Investigation disclosed that the statement had been prepared on a cash basis, that many items had been overlooked, and that an accurate determination of profits required consideration of the following information:

(1) The initial inventory had been overstated by $12,000 which amount included $2,000 of goods received on consignment. The inventory also contained merchandise out on consignment to the amount of $84,000 valued at selling price which was 20% above cost. $2,000 of merchandise received on December 29, 1933, had not been included although such purchase was recorded in the accounts.

(2) Uncollectible accounts amounting to $8,500 had not been written off, nor had any provision been made for doubtful accounts estimated to amount to $6,000; these accounts arose from 1933 sales. Likewise, depreciation of $5,200 had been overlooked.

(3) The net profit for the year had been credited with the increase in the valuation of its land based on the sale of a small strip 5 feet by 300 feet, to the city for $330. The total land owned before the sale was 150 feet by 300 feet and cost $4,500. The Land account had been credited with the proceeds from the sale and debited with the increased valuation of the remaining portion.

(4) The current period had been credited with $1,250 paid by a customer whose account had been written off 2 years ago as uncollectible.

(5) The following accrued and deferred items had been disregarded:

Interest income accrued.....	$ 425	Rental income deferred.....	$ 125
Direct labor accrued.....	3,725	Interest income deferred....	50
Office salaries accrued.....	1,500	Interest and discount prepaid	435
Officers' salaries accrued....	2,200	Insurance unexpired	335

(a) Prepare journal entries to adjust the books in accordance with the above information.

(b) Draft a formal profits adjustment statement. (Such a statement should begin with the book profit, show its various adjustments, and develop the true profit, to be shown as the last amount.)

Assignment 25

1. The following condensed post-closing trial balance as on December 31, 1933, is taken from the books of the Hitler-Savage Products Co.:

Cash	$ 50,000	
Investments	150,000	
Other Current Assets.....	300,000	
Plant and Equipment.....	2,250,000	
Depreciation Reserve Plant and Equipment.....		$ 800,000
Goodwill	250,000	
Current Liabilities		200,000
Bonds Payable		250,000
Capital Stock Preferred, No Par.....		400,000
Capital Stock Common, No Par.....		500,000

Reserve for Contingencies		150,000
Surplus		700,000
	$3,000,000	$3,000,000

The company has found it difficult to conduct operations on a profitable basis for the past few years and is seeking authorization from an early meeting of the stockholders to make such adjustments in plant values as will decrease its depreciation and other fixed charges and place it on a competitive basis with recently organized concerns. A group of stockholders engages you to make an investigation and report to them. From the records and other sources you secure the following information, which you report to your client:

(1) The Investments contain 10,000 shares of the company's common stock at cost of $65,000. The company has been trading in its own stock for some time and has received on all sales to date $75,000 more than cost. This has been reported as current profit.

(2) Goodwill was brought on the books 3 years ago at the time of the issue of its preferred stock and was a part of the company's assets on the basis of which the issue was floated.

(3) Concerning Plant and Equipment you secure the following data:

Item	Orig. Cost	*Accr. Depr. 12/31/26	Appr. Val. 12/31/26	Depr. on Appr. Val.	Repl'ts Chgd. to Depr. Res.	Accr. Depr. 12/31/33
Land	100,000	None	350,000	None	None	None
Buildings	500,000	20,000	750,000	50,000	59,750	69,000
Machinery	700,000	125,000	900,000	200,000	100,000	541,000
Other Equip.	200,000	70,000	250,000	100,000	85,000	190,000
	1,500,000	215,000	2,250,000	350,000	244,750	800,000

* After transfer of the $75,000 mentioned below.

The depreciation rates in force since the appraisal are: 1½% on buildings; 7% on machinery; and 10% on other equipment. As noted above, the cost of all replacements has been charged to the depreciation reserves and there have been no additions to plant. Previous to the appraisal, depreciation rates had been: 2% on buildings; 10% on machinery; and 12½% on other equipment. On the advice of engineers $75,000 was on December 31, 1926, transferred from depreciation reserves to surplus, $5,000 from building reserve, $50,000 from machinery reserve, and $20,000 from other equipment reserve. Since 1926 depreciation has been based on the appraisal values but the amount of the difference between such depreciation and that based on original cost at the current rates has been transferred each year to earned surplus.

(4) The preferred capital stock is cumulative at $3 per year, is redeemable at $50 per share. The authorized issue is 10,000 shares of which 8,000 were sold at $60 per share. Dividends are in arrears 2

years, although the state of incorporation permits the distribution of paid-in surplus.

(5) The authorized issue of common capital stock is 75,000 shares of which 50,000 were sold at an average price of $15.

(6) The Reserve for Contingencies comprises $100,000 for fire insurance—the company carries part of its own insurance risk—$10,000 for uncollectible accounts; $3,000 for sales discounts; $25,000 for decline in value of investments; and the balance is a general reserve set up for conservatism's sake.

In the course of your investigation, the meagerness of the informative content of the company's record was brought sharply to the attention of its officials and they engage you to set up detailed accounts to accord with the information secured by you.

(a) Make such adjusting entries as you deem necessary properly to reflect the plant appraisal report of December 31, 1926, and subsequent transactions relating to it and also to set forth the status of the company's capital stock and surplus. (Be sure to give as explanatory matter the computations of amounts used.)

(b) Draft a corrected balance sheet as of December 31, 1933.

2. In consequence of your findings—see Problem 1—and upon advice of competent appraisers you advise the stockholders to authorize a pro-rata reduction of 40% on all plant assets except land which has a current value of $250,000, and a decrease of goodwill to $1. The plant devaluation is accordingly authorized and the company's directors are instructed to reduce the stated value of the common shares by even units of one or more dollars per share as may be necessary to absorb the plant values written off. You are engaged to adjust the accounts accordingly.

(a) Draft the entries necessary to effect the various write-offs.

(b) Prepare the company's balance sheet after the devaluation. (Be sure to give a detailed statement of surplus to inform owners and others of the value changes which have been made. Draft this balance sheet with extreme care, as it is an important document of the financial history of the company.)

③ The following balance sheet was prepared by the Elto Manufacturing Co. on December 31, 1933:

Assets		*Liabilities and Net Worth*	
Cash	$ 50,000	Accounts Payable	$ 30,000
Accounts Receivable	100,000	Accrued Expenses	20,000
Merchandise Inventory	150,000	Bonds Payable	50,000
Other Current Assets	100,000	Other Liabilities	50,000
Plant Equipment	700,000	Capital Stock—Common	250,000
Buildings	50,000	Capital Stock—Preferred 7%	400,000
Land	30,000	Reserve for Depreciation	100,000
		Surplus	280,000
	$1,180,000		$1,180,000

In auditing this balance sheet you secure the following additional information:

(1) A customer's account of $500 is considered worthless and 2% of the remainder are considered doubtful of collection.

(2) The Surplus account contains the following:

Premium on Sale of Capital Stock	$ 1,540
Appreciation of Land	15,000
Premium on Bonds Payable	6,150
Undivided Profits—Jan. 1, 1933	227,310
Net Profit for 1933	30,000

The reserve for depreciation consists of $95,500 for plant equipment and $4,500 for buildings. Depreciation on plant equipment has been inadequate for the past 3 years. It should have been 3% more annually during that period.

(3) The merchandise inventory of January 1 was undervalued by $1,500 and that of December 31 was overvalued by $6,000.

(4) An appraisal of the land at December 31, 1933, shows its current value to be $40,000.

(5) A judgment for $5,000 for a personal injury was rendered against the company on December 27, 1933. Another suit of a similar nature is now pending in which damages of $3,000 are asked. No provision was made for either of these two claims. It is thought $6,000 will probably cover both items and the legal costs will be $1,000.

(6) Estimated collection expenses of $500 for accounts receivable and additional sales discounts of $1,000 to be taken by customers on their accounts were omitted.

(7) A dividend of 7% will be due on the preferred stock on January 1, 1934. While this has not been formally declared, the directors have given blanket authority for it and preparations for its payment are under way.

(a) Prepare such correcting journal entries as you deem necessary.

(b) Draft a corrected balance sheet, supported by a statement of surplus.

4. A corporation prepares a balance sheet on June 30, 1933, showing a surplus of $57,263.58. An investigation, however, reveals the following facts:

(1) Net profit for past 6 months amounted to $15,163.12.

(2) Fixed assets costing $105,612.16 were depreciated at the annual rate of 10% for the past 18 months, when the rate should have been 15%. See also items (4) and (5) below.

(3) Inventory at January 1, 1933, was understated by $650 and that at June 30, 1933, by $1,500.

(4) Plant costs amounting to $937 incurred on January 2, 1933, were charged to revenue, but should have been capitalized.

(5) Plant costs of $500 incurred January 3, 1932, were capitalized but should have been charged as an expense.

(6) On March 3, 1933, a loss of $15,000 was suffered by burglary which was not compensated by insurance. This was charged against the current period's income.

(a) Prepare a statement to show the correct net profit for the current period.

(b) Prepare a statement of surplus.

Assignment 26

1. On January 1, 1931, the Pineview Corporation was organized for the purpose of developing a restricted residential section, desirable for small estates of about one acre each. The corporation acquired a 60-acre tract of land suitable for such a project in exchange for 750 shares of its $100 par value common stock.

The corporation also issued on the same date $75,000 of 4½% 10-year bonds, interest payable semi-annually on July 1 and January 1. The bonds are sold at 98. The mortgage indenture provides for a sinking fund out of profits to be set aside at the end of each year equal to $2,000 for each acre tract sold during the year, until the amount accumulated is sufficient to retire the bonds. The funds so determined are to be deposited with the Sound Trust Co. as trustee, which guarantees a return of 3% per year, compounded annually. It was estimated that approximately 10 acres of the tract would be required for the sundry improvements planned.

During the year no lots were sold but the corporation let contracts for $150,000 for water, sewers, roads, and landscaping, making payments of $40,000 thereon during the year, and it spent $10,000 for administrative expenses, and $9,000 for other necessary costs, including the first year's bond interest. From investments of capital funds not needed in the business it received $250 interest during the year.

In 1932, 10 plots of one acre each were sold for $140,000 cash. The sales contract with each buyer of a plot provides that the corporation is to set aside a portion of the sales money from each plot so that by the time all the plots are sold a perpetual maintenance fund of $200,000 will have been provided. At the termination of the project and upon liquidation of the company, the fund is to be turned over to and administered by a board of trustees elected by the property owners. Payments into the fund of $4,000 for each plot sold are to be made at the end of each fiscal period and invested in sound 4% bonds. The interest received from the fund investments, however, is to accrue to the corporation until all plots have been sold.

December 31, 1932, the first payments were made, as agreed, into the two funds and 4% bonds were purchased at par, to the full amount of the maintenance fund instalment. Further improvements of $10,000 were made and paid for during the year and $50,000 were paid on contracts let in 1931. General administrative expenses of $12,000—of

which $5,000 was incurred for supervision of development activities; selling expenses and commissions of $10,660; maintenance expense of $6,000; and bond interest as agreed were paid. A 10% dividend was declared December 31, payable out of the first plot sales of 1933.

During 1933, 13 one-acre plots were sold for $190,000, of which $160,000 was received in cash. Expenditures were as follows: general administrative, $18,000—of which $7,000 is for development; maintenance, $6,000; bond interest as agreed; selling expenses and commissions, $17,593; and payments on 1931 contract, $25,000. Interest received from maintenance fund investments amounted to $1,600, and from sinking fund $600.

A 30% dividend was declared on December 31 to be paid out of the first sales income of 1934. The sinking and maintenance fund agreements were executed, but the bonds have not yet been purchased.

(a) Prepare journal entries to record all of the above transactions. (Amortize the bond discount by the straight line method.)

(b) Draft a balance sheet as of December 31, 1933.

(c) Draft a statement of profit and loss for the entire period.

2. A corporation issues on July 1, 19–, 200 $1,000 serial bonds at 106, bearing interest at the rate of 5½% per annum, payable January 1 and July 1 of each year. Under the bond indenture the corporation is required to deposit with the trustee sufficient cash to retire 20 of these bonds annually. The bonds are redeemable at the following prices: 104.5 at the end of the first year and thereafter at a price .5 less than that of the preceding year.

(a) Prepare an amortization schedule. (Determine the redemption premium for the entire issue. Subtract this from the premiums received at the time of issue and amortize the balance by the bonds outstanding method.)

(b) Prepare journal entries to record:

(1) The sale of the bonds.

(2) The payment of the first 2 years' interest.

(3) The redemption of the first 2 series.

3. The Vacuol Corporation is required, under its bond indenture, to deposit $10,000 with the trustees of its sinking fund at the end of the first year after issue, and annually thereafter such an amount as, when added to the net income earned by the fund during the year, will equal $10,000.

The first payment of $10,000 was made on June 30, 1931. The transactions reported by the trustees for the first 2 years were as follows:

July 31, 1931, 10 4% $1,000 bonds were purchased at 87 and accrued interest, interest being payable February 1 and August 1.

August 15, 1932, 9 6% $1,000 bonds were purchased at 103 and accrued interest, interest being payable March 1 and September 1.

January 1, 1933, 6 of the 4% bonds were sold at 89 and accrued interest.

March 1, 1933, 5 6% $1,000 bonds were purchased at 93 and accrued interest, interest being payable January 1 and July 1.

The trustee's expenses including his commission were $210 for the year ended June 30, 1932, and $233 for the year ended June 30, 1933.

Interest on the bonds has been regularly collected by the trustee. Interest on daily cash balances of the sinking fund has been credited as follows: for the year ended June 30, 1932, $36; for the year ended June 30, 1933, $73.

(a) Prepare journal entries to record the transactions on the trustee's books.

(b) Prepare journal entries to record the transactions on the books of the Vacuol Co.

4. A corporation sells $250,000 of its 6% bonds due in 20 years. The bond indenture provides that for their redemption at maturity the corporation shall create a sinking fund out of profits by the payment at the end of each year during the life of the issue of such equal amounts as will at 4½% interest compounded annually accumulate the necessary funds. These funds are to be invested in high-grade bonds. At the end of the 20 years the sinking fund securities plus the last year's interest realize $243,527.

(a) Compute the amount of the annual contribution to the fund.

NOTE: $1.045^{20} = 2.411714$

(b) Make the entries necessary at the end of the second year to record the sinking fund transactions at that time. (Assume that the fund earned and received exactly 4½% interest during the year and that it is under the control of the corporation.)

(c) Make the entries necessary to record the redemption by the sinking fund of the bond issue at its maturity and to close out the sinking fund records.

5. A municipality issues $10,000,000 of 4% 25-year bonds to finance the construction of a traffic tunnel, for the use of which it proposes to charge a 25 cent toll for each vehicle. The bond indenture provides that the tolls shall be set apart in a fund to be used for the payment of interest on the bonds and for the redemption by lot each year of such an amount of bonds as the fund can purchase. Such bonds are redeemable at 100½. During the 3-year period of construction and until the tunnel becomes self-supporting, the bond interest is to be paid from the city's general revenues, which are to be reimbursed before any bonds could be redeemed. Traffic records for the first 6 years after the tunnel was opened showed the following numbers of vehicles using it:

1st year	1,400,000	3rd year ...	2,940,000	5th year	3,236,000
2nd year ...	2,120,000	4th year	3,610,000	6th year	3,948,000

(a) Draft a tabular statement to show the status of the bond issue at the close of the ninth year after issue.

(b) Prepare journal entries to record all of the above data. Use summary figures for the 9 years. Since the bonds are redeemable at a premium, a greater liability is assumed than their par amount. Assuming the issue sold at par, a redemption premium of $50,000 must be provided. On this basis, make the necessary yearly accumulation by the straight line method.

Assignment 27

1. The Pederson Specialty Co., manufacturer of a household necessity, owns and operates a mine through which it controls several of its essential raw materials, the rest being purchased on the open market. The details of its mining operations are carried on the mine ledger which is controlled by Costs of Mining account on the general ledger. A trial balance taken from the general ledger on December 31, 19– showed as follows:

Capital National Bank	$ 36,750	
Accounts Receivable—Trade	23,215	
Raw Materials Mine Inventory, Jan. 1	35,250	
Raw Materials, Other Inventory, Jan. 1	20,750	
Goods in Process Inventory, Jan. 1	32,330	
Finished Goods Inventory, Jan. 1	47,980	
Land	30,000	
Mine Property	175,000	
Machinery and Equipment	172,500	
Buildings	135,000	
Notes Receivable	8,000	
Accounts Payable		$ 12,500
Notes Payable		15,000
Costs of Mining	125,000	
Raw Material Purchases (net)	76,000	
Capital Nat'l Bank, Dividend Account	125	
Depreciation Reserve Buildings		22,500
Depreciation Reserve Machinery and Equipment		33,000
Depletion Reserve Mine Property		88,000
Capital Stock Common (par $100)		300,000
Capital Stock Preferred, 7% (par $100)		100,000
Surplus		52,145
Factory Labor	49,740	
Manufacturing Supplies	12,790	
Repairs Machinery	7,655	
Light, Heat, and Power	9,700	
Sundry Factory Expense	24,650	
Selling Expense	49,380	
Administrative Expense	37,290	
Interest Paid	2,750	
Sales Discounts	8,825	
Dividends Payable		125
Net Sales		455,625
Purchase Discounts		3,985
Profit from Sale of Land		2,900
Reserve for Doubtful Accounts	100	
Treasury Stock, Common (100 shares)	8,000	
Discovery Value Surplus		52,750

Dividends Paid	9,500	
Interest Income		250
Prepaid Insurance, Jan. 1	500	
	$1,138,780	$1,138,780

The following additional information, to be considered in closing the books for the year, is available:

Raw Materials Mine Inv., Dec. 31	$26,450	Mine expense prepayments.	$ 4,690
Raw Materials Other Inv., Dec. 31	12,570	Mine expense accruals	2,136
Goods in Process Inv., Dec. 31	23,000	Factory expense prepayments	1,500
Finished Goods Inv., Dec. 31	45,890	Factory labor accrued	2,000
Prepaid Insurance	150		

Depreciation of buildings is 2½% and machinery and equipment 10% per annum. The following expense distributions are to be made:

Expenses	Mine	Factory	Selling	General
Depreciation Buildings	15%	65%	10%	10%
Depreciation Machinery	40%	60%		
Light, Heat, and Power	35%	45%	10%	10%
Machinery Repairs	45%	55%		

Depletion of mine is computed at the rate of 50¢ per unit of output. Current output has been 26,500 units. $30,000 of the depletion reserve of $88,000 and all the current reserve apply to discovery value of the mine.

Reserve for doubtful accounts 2% of the outstanding receivables.

Due to large idle manufacturing capacity brought about by undue expansion of plant previous to 1929 and due also to the fact that a considerable part of its idle machines is subject to early obsolescence, the directors on December 22 decided to retire machinery costing $43,125, having an estimated scrap value of $2,000, and an old building costing $27,000 with no scrap value. These assets to be retired have a pro-rata claim on their respective reserves. Although these retirements would greatly deplete its earned surplus, the directors, desirous of maintaining the company's record of continuous liberal dividends, at the same meeting passed a resolution declaring "a semi-annual dividend of 3½%, payable January 15, on the preferred capital stock and 8% on the common capital stock, payable January 20, both payments to be made out of the company's depletion reserve." The directors authorized the treasurer to negotiate a bank loan, if necessary, to take care of the payments. Acting under this authority the treasurer on December 31 discounted at 6% the company's 90-day note for $10,000. None of these transactions had been recorded.

(a) Prepare journal entries to record all of the above transactions.

(b) Draft balance sheet as of December 31, 19–. Support this with a statement of surplus—earned, capital, and reappraisal. [The method

of the work sheet should be employed with the entries of "(a)" posted to it as adjustments.]

(c) Draft a statement of profit and loss for the year.

2. The Grotus Elevator Co., after suffering a disastrous fire loss, showed the following net worth:

Capital Stock:			
7% Cumulative Preferred, $100 Par Value			
Authorized 5,000 shares			
Outstanding 3,500 shares		$ 350,000	
Premium		28,000	
Common, No Par			
Authorized 25,000 shares			
Outstanding 20,000 shares		1,000,000	
Paid-in Surplus		100,000	$1,478,000
Earned Surplus		$ 205,000	
Dividends Declared (Not paid)			
#37 on Preferred—7%	$24,500		
#25 on Common—5%	50,000	74,500	130,500
Total Net Worth			$1,608,500

The Fire Loss of $475,000 was shown on debit side of balance sheet.

The stock of the company is closely held and at a special stockholders' meeting, held shortly after the fire, it was unanimously voted to revoke both unpaid dividends. This action was taken with the understanding that a change in capital structure would be effected so that dividends could be resumed as soon as earnings were available. Accordingly, it was subsequently voted to reduce the stated value of the common stock such an even number of whole dollars per share as would make possible the absorption of the fire loss and leave a surplus of as near $100,000 as possible.

The desired change was made. The company's net profit for the next year was $95,000. The usual dividends on preferred and $1 a share on common were declared.

(a) Prepare journal entries to record the above transactions.

(b) Present the net worth section of the company's balance sheet at the close of the current year.

3. On December 31, 19–, the Bast Brewing Co., organized under the laws of the state of Wisconsin, had outstanding 10,000 shares of $50 par value 6% cumulative participating preferred stock and 25,000 shares, out of an authorized issue of 40,000 shares, of no-par value common stock carried at $40 per share. Its surplus consisted of: (1) paid-in $150,000; (2) appropriated to sinking fund reserve, $500,000, covering an issue of bonds of like amount due on January 2, funds for the retirement of which were already available in the trustee's hands; (3) free, $425,000, after debiting the current period's operating deficit of $75,000.

Due to recent increases in business and an upturn in the realty market, the company's plant site, which had been marked down drastically in late

1932, was reappraised and certified by Realty Appraisers, Inc., as having a current value of $250,000, being $150,000 more than its book value.

The company having ample cash resources, at the directors' meeting held on December 31 it was voted to declare the usual dividend of 6% on the company's preferred stock, payable in cash, a stock dividend of 15,000 shares of the company's unissued common capital stock at a declared value of $40 per share, payable 5,000 shares to the holders of the company's preferred stock and 10,000 shares to its common stockholders, and a cash dividend of $3 per share on all common shares then outstanding, including the dividend shares just issued.

(a) Make the necessary journal entries to give effect to all the above transactions.

(b) Draft a statement of the company's net worth after the dividend distributions, showing in detail all changes in surplus.

4. The Golden Gate By-Products Co. was organized under the laws of the state of California and had issued 10,000 shares, out of a total authorized issue of 20,000, of common capital stock of no par value. The carrying value of the stock was $50 per share, with paid-in surplus amounting to $25 per share. The company's operations for the past few years had been unprofitable, resulting in an accumulated deficit of $300,000 at the beginning of the current year. The company's cash resources had been well conserved and in addition to operating profits of $95,000 at the close of the current year it had through dealings in its own stock increased its cash funds by $30,000 and owned 3,000 shares of its own stock. Realizing that profits were accruing, it paid on June 30 a cash dividend of $1 per share on its total issued capital, the company at that time owning 2,000 shares of its stock. The dividend on this stock is included in the $95,000 above, as Income from Investments. At the directors' meeting held on December 31, the dividend disbursement of June 30 was ratified by suitable resolution and a further cash dividend of $5 per share was authorized for payment on January 10. The company paid $30,000 for its present holding of treasury stock.

(a) Prepare journal entries to record properly all the above transactions. (Assume Treasury Stock account was kept on an actual cost basis.)

(b) Draft the net worth section of the company's balance sheet, as at the end of the current year.

Assignment 28

1. The selling activities of the Newark Manufacturing Co. are carried on through a New York branch, the balance sheet of which appeared as follows at the beginning of the fiscal year, January 1, 19–:

Cash	$ 15,629	Accounts Payable	$ 3,286
Notes Receivable	22,147	Reserve for Doubtful Accts.	3,420
Accounts Receivable	319,863	Depr. Res. Furn. and Fix...	1,236
Furn. and Fix.	13,437	Newark, General	363,734
Prepaid Rent	600		
	$371,676		$371,676

The stock of merchandise—at billed price—on hand at New York at the same time was $38,397, but was controlled from Newark, where its billing price was found to be 130% of cost.

The balance sheet of the head office was as follows for the same date:

Cash	$ 76,327	Notes Payable	$ 27,236
New York, General	363,734	Accounts Payable	131,815
Raw Materials	105,613	Direct Labor Accrued	4,163
Goods in Process	110,863	Indirect Labor Accrued	2,094
Finished Goods	137,393	Office Salaries Accrued	1,136
Factory Supplies	3,000	Rental Income Deferred	200
Furn. and Fix.	10,000	Bonds Payable	100,000
Mach. and Equip.	636,233	Dep. Res. Furn. and Fix.	3,261
Building	70,000	Depr. Res. Mch. and Equip.	123,036
Land	10,000	Depr. Reserve, Building	4,200
Prepaid Taxes	230	Capital Stock, Preferred	750,000
Unexpired Ins. on Factory	360	Capital Stock, Common	250,000
Patents	7,000	Surplus	133,612
	$1,530,753		$1,530,753

During the year a summary of head office transactions was as follows:

Shipments to Branch at nominal billing price.	$1,241,187.05	Cash Payments, cont'd:	
Purchases:		Interest on Notes	$ 1,539.00
Raw Materials	432,173.00	Direct Labor	306,042.00
Factory Supplies	12,618.00	Indirect Labor	100,612.00
Stationery and Print.	3,417.00	Insurance on Factory	2,894.00
Telephone and Tel.	2,196.00	Taxes	2,347.00
Advertising	5,000.00	Officers' Salaries	100,000.00
Light Heat and Pow.	6,996.00	Office Salaries	40,000.00
Freight-Inward	13,164.00	Building Repairs	1,100.00
Freight-Outward	17,286.00	Machinery Repairs	1,634.00
Cash Receipts:		Advertising	2,000.00
Branch Office	1,126,014.00	Sundry Factory Expense	1,136.00
Rent Income	2,200.00	Sundry General Expense	6,937.00
Cash Payments:		Notes Payable	39,814.00
Accounts Payable	458,684.00	Notes Payable Issued for Accounts Payable	34,836.00
Bonds Payable	100,000.00		
Interest on Bonds	6,000.00		

Note that total advertising expense for the year is $7,000.

The following items are to be taken into account on December 31 in closing the head office books:

Inventories, Dec. 31:		Patents, Bought 3 years ago last January for	$ 8,500
Raw Materials	$106,014	Accrued Expenses:	
Goods in Process	109,618	Direct Labor	2,634
Finished Goods	120,614	Indirect Labor	936
Factory Supplies	2,600	Office Salaries	384
Depr.—Straight Line:		Interest	696
Furn. and Fix.	10%	Prepaid Expenses:	
Mach. and Equip.	8%	Taxes	235
Building	2%	Insurance on Factory	1,639

Taxes and Light, Heat, and Power are chargeable 90% to factory; Building Repairs and Depreciation, 95% to factory; Stationery and Printing and Telephone and Telegraph, 15% to factory. All Freight Outward and $5,000 of Officers' Salaries are chargeable to New York.

The summarized operations of New York, other than transactions with the head office, were as follows:

Sales	$1,306,046	Cash Payments:	
Cash Receipts:		Rent	$ 3,600
Notes Receivable	30,000	Salaries	100,000
Accounts Receivable	1,354,936	Sundry Expenses	50,000
Purchases:		Accounts Payable	70,000
Sundry Expenses	150,000	Customers' Notes on Acct.	25,000

The following items relating to the Branch are to be taken into account at the close of the year:

Inventory, at billed price	$42,618
Prepaid Rent	400
Accrued Salaries	1,000
Depreciation Furniture and Fixtures	10%

½% of net sales is to be reserved for bad debts, against which reserve $3,000 have been charged during the year.

Both inventories of finished goods of the head office shown above include the cost of both inventories of the branch.

(a) Prepare journal entries for branch books to record all transactions relating thereto.

(b) Prepare journal entries for Newark books to record all transactions, including New York results for the year.

(c) Draft Newark and New York balance sheets as of December 31, 19–.

(d) Draft consolidated balance sheet as of same date.

(e) Draft consolidated statement of profit and loss for the year.

2. A branch office was opened on April 1, 19–. The head office advanced $14,000 cash and during the first 3 months shipped goods to the branch at an invoice price of $40,000, being 25% above cost.

During the first 3 months branch sales amounted to $35,000, the average selling price being 25% above cost to the branch.

The following cash payments were made by the branch during the 3 months:

Rebates and Allowances	$ 937	Freight-Out	$ 1,000
Salaries	3,000	Remittances to Head Office.	15,000
Expenses	2,000		

The outstanding Accounts Receivable on June 30, 19–, amounted to $15,300.

(a) Prepare journal entries to record all of above transactions on the branch books.

(b) Prepare for the branch a profit and loss statement. (Use the branch merchandise cost figures.)

(c) Prepare the head office profit and loss statement of the branch. (Use actual merchandise cost.)

(d) Prepare for the head office a balance sheet of the branch.

(e) Prepare journal entries to close the books of the branch.

(f) Prepare journal entries to incorporate on the head office books the results of branch operations for the 3 months.

3. The Liberty Manufacturing Co. of Philadelphia established a branch office in New York on January 1, 19–. The branch bills and collects its own sales and pays all its own expenses. All goods sent to the branch by the head office are billed at cost. On December 31, 19–, the branch office sends the following trial balance to Philadelphia and asks instructions for closing.

NEW YORK BRANCH, TRIAL BALANCE,

December 31, 19—

Cash on Hand	$ 300	
Cash in Bank	20,230	
Accounts Receivable	50,396	
Head Office Account		$ 59,525
Furniture and Fixtures	1,236	
Accounts Payable		2,637
Purchases from Head Office	300,637	
Purchases from Others	45,263	
Rent	3,600	
Selling Expenses	5,000	
Sales Salaries	30,000	
Office Salaries	15,000	
Sales		410,636
General Expenses	3,136	
	$474,798	$474,798

The branch inventory is $15,694.

The head office instructs the branch to compute depreciation on furniture and fixtures at 10%, to set up a reserve of 1½% of the receivables for doubtful accounts, and to set up $5,000 as its equitable share of head office expenses.

(a) Prepare a profit and loss statement for New York.

(b) Prepare adjusting and closing journal entries for New York.

(c) Prepare entries for Philadelphia to incorporate the results of New York operations for the year.

4. The following trial balances were taken from the books of the Silane Mercantile Co. and its Cleveland branch on June 30, 19–, the close of their fiscal years:

SILANE MERCANTILE CO.

Cash	$ 21,267	
Accounts Receivable	27,613	
Merchandise Inventory, July 1	46,824	
Branch Account		$136,956
Branch Office Merchandise	220,745	
Shipments to Branch		220,745
Accounts Payable		10,263
Capital Stock		75,000
Surplus		27,158
Imputed Interest on Branch Investment		3,000
Sales		209,256
Purchases	339,626	
Expenses	26,893	5,000
Furniture and Fixtures	6,300	
Reserve for Depreciation		1,890
	$689,268	$689,268

CLEVELAND BRANCH

Cash	$ 8,927	
Merchandise Inventory, July 1	21,683	
Furniture and Fixtures	2,000	
Accounts Receivable	18,746	
Depreciation Reserve, Furniture and Fixtures		$ 600
Head Office Account	154,956	
Merchandise from Head Office	198,190	
Head Office Merchandise		219,873
Accounts Payable		2,137
Sales		193,046
Expenses	11,154	
	$415,656	$415,656

The following additional information, to be taken into account in closing, is available:

Head Office Inventory	$30,036	Depr. Furn. and Fix.	10%
Branch Inventory	23,039	Bad Debts—1½% of Outstanding Accounts.	

All merchandise is billed to branch at 20% above cost.

There is a remittance of $10,000 in transit from the branch to head office. The credit to Expenses on Head Office books represents a charge made to the branch on June 30 for head office overhead. Head Office charges branch, as indicated, interest on average investment during the year. Merchandise in transit amounts to $872.

(a) Present reconciliation statements for the accounts current between head office and branch.

(b) Draft adjusting and closing entries for the branch. (Be sure to record the adjustments of the accounts current.)

(c) Draft adjusting and closing entries for head office. (Handle the accounts so that the actual profit on branch operations will be shown.)

(d) Draft consolidated balance sheet as of June 30, 19–.

(e) Draft consolidated profit and loss statement for the year.

Assignment 29

1. The Berlin branch of an American corporation sends the following trial balance as of December 31, 19–:

	Marks	Marks
Cash	60,000	
Accounts Receivable	860,000	
Reserve for Doubtful Accounts		1,215
Merchandise Inventory, Jan. 1	290,600	
Remittance Account	510,000	
Furniture and Fixtures	15,000	
Reserve for Depreciation, Jan. 1		3,000
Accounts Payable		330,000
Sales		1,236,940
Purchases	1,094,300	
Salaries	50,000	
Expenses	60,000	
N. Y. Control		1,368,745
	2,939,900	2,939,900

The remittance account comprises three drafts of 170,000 marks each which were sold at 23.81 cents, 23.28, and 23.61 respectively.

The rate of exchange on December 31 was 23.80.

The average rate for the year was 23.63.

The rate at the time of purchase of the Furniture and Fixtures was 23.82.

The inventory at December 31, was 283,040 marks.

The following data relating to the branch are available from the New York records on which, however, a single branch control account is kept:

Merchandise Inventory, Jan. 1	$69,075.62
Reserve for Depreciation, Jan. 1	714.60
Control Account	325,350.69
Reserve for Doubtful Accounts	288.81

Doubtful accounts for the current period are estimated as 1% of receivables. Depreciation is estimated at 10%.

(a) Prepare journal entries to adjust and close the branch books.

(b) Prepare statement of conversion of the branch adjusted trial balance into dollars.

(c) Prepare a balance sheet and a profit and loss statement of the branch in both currencies.

(d) Prepare journal entries to incorporate the operations of the branch with those of the main office.

2. A New York corporation established a branch in Paris to which it sent 100,000 francs at a cost of $3,916. A few days later it sent 75,000 francs at a cost of $2,941.50. Furniture and fixtures were purchased in Paris at a cost of 68,500 francs on the first day of the month the branch was established. The rate of exchange on the date of pur-

chase was 3.920. The furniture has an estimated life of 10 years, with no scrap value. During the first 6 months the following shipments of merchandise are made to Paris and billed at cost:

	Cost	Monthly Average Rate
First Month	$16,000	3.922
Second Month	11,000	3.920
Third Month	9,000	3.926
Fourth Month	17,000	3.938
Fifth Month	20,000	3.920
Sixth Month	21,000	3.923

During the 6 months the head office drew the following drafts on Paris and sold them at the rates shown:

Draft for 128,000 francs at.... 3.921	Draft for 508,000 francs at.... 3.936
Draft for 254,000 francs at.... 3.927	Draft for 510,000 francs at.... 3.922

On December 31, the end of the sixth month, the exchange rate was 3.93. On that date Paris reported the following:

Inventory, Dec. 31	750,000 francs
Sales for 6 Months (all on account)	2,230,000 francs
Salaries and Expenses Paid	500,000 francs
Customers' Accounts Collected	1,980,000 francs

(a) Prepare journal entries on the branch books for all of the above transactions, including depreciation.

(b) Prepare trial balance of the branch books.

(c) Prepare the journal entries for the head office books covering current transactions with the branch.

(d) Prepare statement of conversion of the branch trial balance into dollars.

(e) Prepare journal entries to close branch books.

(f) Prepare journal entries for the head office to incorporate branch operations.

3. A New York manufacturing company established a branch in Buenos Aires on January 1, 19–, for the purpose of manufacturing some raw materials used by the New York factory. During the year the following transactions took place:

Remittances by New York were:

January 1	$50,000	August 15	$35,000
January 15	20,000	October 15	25,000
March 15	20,000	December 15	25,000
May 15	25,000		

Cash payments by Buenos Aires during the year were:

Jan. 5, Plant and Equip.	70,000 pesos
Jan. 8. Plant and Equip.	19,000 pesos
Production Costs	140,000 pesos
Expenses	51,000 pesos

Accrued expenses at Buenos Aires on December 31, 19–, were:

Expenses	730 pesos	Production Costs	1,600 pesos

Goods shipped at cost were received in New York as follows:

March 15	25,000 pesos	October 15	65,290.30 pesos
May 15	40,000 pesos	December 15	44,101.20 pesos

Plant and Equipment are to be depreciated at 8%.

The exchange rates during the year were as follows:

Jan. 1	69.30 cents	May 15	70.71 cents
Jan. 5	69.40 cents	Aug. 15	64.57 cents
Jan. 8	69.43 cents	Oct. 15	52.00 cents
Jan. 15	69.70 cents	Dec. 15	58.52 cents
March 15	78.04 cents	Dec. 31	58.65 cents

Average for the year..... 66.71⅔ cents

(a) Prepare Buenos Aires entries for all above transactions.

(b) Prepare New York entries to record all of the current transactions for the year.

(c) Prepare Buenos Aires trial balance.

(d) Prepare statement of conversion of the branch trial balance into dollars.

(e) Prepare balance sheet and statement of Cost of Goods Shipped for the branch in both currencies.

(f) Prepare entries to close branch books.

(g) Prepare entries to set up branch operations on New York books.

4. The London branch of a New York corporation sent the following trial balance on November 30, 19–:

	£	£
Cash	5,364	
Accounts Receivable	16,618	
Reserve for Doubtful Accounts ($4.8547)		231
Merchandise Inventory ($4.8547)	27,918	
Furniture and Fixtures ($4.8621)	1,026	
Reserve for Depreciation ($4.8621)		113
Accounts Payable		9,006
Sales		63,411
Purchases	49,816	
Salaries and Other Expenses	9,386	
Remittance Account	31,000	
N. Y. Control ($4.8592)		68,367
	141,128	141,128

The Remittance Account includes the following drafts:

Draft for £6,000 sold at	$4.8583
Draft for 5,000 sold at	4.8649
Draft for 10,000 sold at	4.5313
Draft for 10,000 sold at	3.3737

During December, the following transactions took place:

Sales on Account	£6,000	Paid on Accounts Payable	£4,130
Purchases on Account	4,360	Collected Accounts Receivable	5,340
Expenses Paid	1,000	Paid for Office Equipment	250

The rate of exchange on December 31 was $3.3975. The rate on December 15, when office equipment was bought, was $3.3725. The average rate for the year was $4.5352. A draft for £5,000 at $3.3937 was drawn on December 29 by New York. This draft had not yet been presented to the London branch for payment.

Depreciation of furniture was estimated at 10% and uncollectible accounts at 1% of outstanding receivables. Merchandise Inventory was £26,412.

At the close of the year a partially adjusted trial balance from the New York books showed as follows:

Cash	$ 75,000.00	
Accounts Receivable	140,000.00	
Reserve for Doubtful Accounts		$ 2,500.00
Merchandise Inventory, Jan. 1	180,000.00	
Plant and Equipment	275,000.00	
Depreciation Reserve Plant and Equipment		55,000.00
Capital Stock		500,000.00
Surplus		148,216.13
Dividends Paid	15,000.00	
Sales		730,000.00
Purchases	400,000.00	
Selling Expenses	175,000.00	
Notes Payable		20,000.00
Accounts Payable		50,000.00
Accrued Expenses		9,000.00
Deferred Income		1,000.00
Prepaid Expenses	8,000.00	
General Expenses	55,000.00	
Financial Management Expenses	25,000.00	
Purchase Discounts		15,000.00
London Control	332,208.93	
Remittances London		149,492.80
	$1,680,208.93	$1,680,208.93

Depreciation is to be estimated at 4% and bad debts at ½% based on sales. Merchandise inventory is $176,250. Dividends of 6% for the year are declared, payable January 15.

(a) Prepare journal entries to record the current December transactions on the London books.

(b) Submit the London trial balance of December 31, 19–.

(c) Prepare a statement of conversion of London trial balance into dollars.

(d) Prepare journal entries to bring London operations onto New York books.

(e) Draft a consolidated balance sheet of New York and London as of December 31, 19–.

(f) Draft a consolidated statement of profit and loss for the year.

Assignment 30

1. On June 30, 19–, A and B agree to consolidate their partnership business with that of C and D in the formation of the Amity Corporation. They organize the latter company on July 1, 19–, with an authorized capitalization of 2,500 shares of $100 par value 7% cumulative participating preferred stock and 5,000 shares of $50 par value common.

The agreement between the partnerships and the company provides that it is to purchase all the assets, excepting cash, and to assume all the liabilities to outside creditors, of each partnership. In return the company is to give its common stock for the goodwill and its preferred stock for the remaining net assets.

The following balance sheets of the partnerships as of June 30, 19–, are submitted to you for verification for use to determine their respective net worths:

Assets	*A and B*	*C and D*
Cash	$ 6,000	$ 40,000
Notes Receivable	10,000	30,000
Accounts Receivable	40,000	70,000
Merchandise Inventory	60,000	125,000
Machinery and Other Equipment	100,000	100,000
Buildings		100,000
Land		20,000
Goodwill		100,000
	$216,000	$585,000
Liabilities		
Notes Payable	$ 12,000	$100,000
Accounts Payable	38,000	160,000
A, Loan	15,000	
B, Loan	15,000	
A, Capital	50,000	
B, Capital	50,000	
C, Capital		150,000
D, Capital		75,000
Depreciation Reserve—Machinery and Other Equipment	36,000	70,000
Depreciation Reserve—Building		30,000
	$216,000	$585,000

Upon verifying the balance sheet of C and D, who share profits and losses in the ratio of ⅔ and ⅓ respectively, you find the following omissions and incorrect valuations:

Omissions: accrued interest income, $150; prepaid expenses, $3,-100; and accrued expenses, $5,750.

Overvaluations: accounts receivable, 5%; goodwill, $40,000; and buildings, $3,000.

Undervaluation of machinery and other equipment, $5,000.

In verifying the balance sheet of A and B, who share profits and losses equally, you find that the accounts receivable were overstated by $4,000 and the machinery and other equipment by $14,500. You also discover the following omissions: goodwill, $20,000; accrued interest income, $75; accrued interest expenses, $575.

After the consolidation of the partnerships, each partner donates one-quarter of his common stock to the corporation, which sells all of these shares for cash on July 3, 19–, at $40 per share.

(a) Prepare adjusting and closing entries for A and B partnership.
(b) Prepare adjusting and closing entries for C and D partnership.
(c) Prepare opening entries for corporation.
(d) Draft a balance sheet of the corporation as of July 3, 19–.

2. Balance sheets of Carr Mfg. Co. and Larkin Corp. on Jan. 1 are:

Assets	Carr Co.	Larkin Corp.
Cash	$ 155,000	$ 130,000
Accounts Receivable	425,000	385,200
Raw Materials Inventory	250,000	146,800
Goods in Process Inventory	88,000	98,600
Finished Goods Inventory	345,000	275,900
Prepaid Expenses	20,800	15,650
Land	610,000	325,000
Buildings	948,000	585,600
Machinery and Equipment	570,000	356,480
Delivery Equipment	35,600	
Furniture and Fixtures	20,200	30,400
Goodwill	150,000	
Land Appreciation		130,000
Buildings Appreciation		234,240
Machinery and Equipment—Appreciation		142,590
	$3,617,600	$2,856,460

Liabilities	Carr Co.	Larkin Corp.
Notes Payable	$ 368,750	$ 278,850
Accounts Payable	541,950	422,975
Accrued Liabilities	9,500	8,750
6% First Mortgage Bonds Payable	750,000	500,000
Depr. Res. Building	75,840	87,840
Depr. Res. Building Appreciation		58,560
Depr. Res. Mach. and Equip.	225,000	178,240
Depr. Res. Mach. and Equip. Appreciation		35,648
Depr. Res. Delivery Equip.	20,560	
Depr. Res. Furn. and Fix.	8,500	15,020
Reserve for Bad Debts	12,750	11,500
Sinking Fund Reserve	112,500	
7% Non-cum., Non-participating Pre. Stock, par $100	400,000	
Common Stock:		
30,000 Shares, No-par, Stated Value $25	750,000	
40,000 Shares, No-par		800,000
Paid-in Surplus	210,000	
Earned Surplus	132,250	51,777
Re-appraisal Surplus		407.300
	$3.617.600	$2.856.460

The Carlan Industrial Corporation is incorporated on January 2, 19–, with the following authorized bonds and capital stock:

2,000 4% first mortgage bonds, par $1,000
5,000 shares 5% non-cumulative and non-participating preferred stock, par $100
70,000 shares common stock, par $25

On January 3, 19–, the new corporation purchases all the assets, excluding cash and goodwill, and, with the consent of creditors, assumes all the liabilities of the Carr Manufacturing Co. and of the Larkin Corporation, paying $943,750 and $612,500 respectively. The payment consists of the following securities of the vendee company:

	5% Non-cumulative Non-participating Preferred Stock	Common Stock
Carr Manufacturing Co. receives	4,000 shares	21,750 shares
Larkin Corporation receives	None	24,500 shares

The assets purchased are then appraised and recorded at the following values:

Items	Carr Co.	Larkin Corp.
Accounts Receivable	$425,000	$385,200
Less, Reserve for Bad Debts	25,000	15,200
	$400,000	$370,000
Raw Materials	260,000	149,000
Goods in Process	85,000	90,000
Finished Goods	350,000	280,000
Prepaid Expenses	20,800	15,650
Land	540,780	304,000
Buildings	763,600	450,000
Machinery and Equipment	302,270	172,000
Delivery Equipment	12,000	
Furniture and Fixtures	9,500	13,500

The liabilities are recorded at the amounts taken over. The bondholders of the vendor companies accept bonds of the vendee of the same amount secured by the combined underlying properties of the former issues. In order to effect this agreement, the vendor companies agreed to give to each holder of a $1,000 bond one share of common stock of the new company as a bonus.

Upon receiving the stocks, the vendor companies make the following exchanges, according to the agreements between the stockholders, bondholders, and the company:

Carlan Industrial Corp. Securities				Carr Co.	Larkin Co.
Common Stock		*Preferred Stock*			
1 share			for	Bonus for 1 bond	
¼ share	and	1 share	for	1 Preferred share	
2 shares			for	3 Common shares	
1 share			for		Bonus for 1 bond
3 shares			for		5 Common shares

The cash that remains to the Carr Co. and the Larkin Corporation after paying $5,000 and $4,800, respectively, for legal expenses of dissolution is distributed to the common stockholders of each company in the form of a dividend.

(a) Prepare all journal entries to open the books of the Carlan Industrial Corp.

(b) Prepare all journal entries necessary to close the books of the Larkin Corporation.

(c) Draft balance sheet of the Carlan Industrial Corporation as of date of consolidation.

3. On July 1, 19–, the International Manufacturing Co. was incorporated to acquire the business of the National Producing Corporation. The total authorized capital stock of the new corporation is comprised of 25,000 shares of 7% cumulative participating preferred stock, par value $100 each, and 400,000 shares of no-par value common stock of $25 stated value.

The balance sheet of the National Producing Corporation on June 30, 19–, follows:

Assets	
Cash	$ 1,480,735
Accounts and Notes Receivable	1,954,629
Inventories	1,461,325
Prepaid Expenses	35,658
Property and Equipment	5,911,682
	$10,844,029
Liabilities and Net Worth	
Accounts Payable	$ 1,478,870
Payroll Payable	155,746
Accrued Taxes	609,413
Capital Stock	
Common, par $100	5,000,000
Preferred, 6% cumulative and participating	2,500,000
Earned Surplus	1,100,000
	$10,844,029

The International Manufacturing Co. purchased all the assets after making adjustments for goodwill and cash dividends, and assumed all the liabilities of the National Producing Corporation at the values shown on the balance sheet. In addition, the vendee company purchased the vendor's goodwill which was valued at $400,000. In payment the vendee issued 25,000 shares of its preferred stock and 246,500 shares of its common stock.

The new company sold the following common stock for cash:

25,000 shares at 25¼
25,000 shares at 25¾
25,000 shares at 26

The National Producing Corporation distributed the vendee preferred stock to its preferred stockholders and 200,000 shares of the vendee common stock to its common stockholders. The remaining shares were distributed as a dividend to both the preferred and the common stockholders.

The terms of issue of the preferred stock of the National Producing Corporation required that after preferred and common shall each have received a 6% dividend each year, any further distributions of profits are to be shared in by both classes of stockholders in proportion to their respective amounts outstanding. During the past fiscal year, three regular quarterly dividends were declared and paid on the preferred but no dividends were distributed to the common shareholders. There were no other arrears of dividends on the preferred stock and in every year since the participation agreement became effective the common stock had received a dividend of at least 6% on all outstanding stock.

All the above transactions were effected on July 2, 19–.

(a) Prepare pro forma journal entries to close the books of the National Producing Corporation.

(b) Prepare pro forma journal entries to open the books of the International Manufacturing Co.

(c) Draft balance sheet of the new company as of July 2, 19–.

4. The directors of the Excelsior Supply Co., desirous of acquiring the business of a competitor, authorize John Cortlend to buy up the stock of Quality Products Corporation. Sums of money are advanced to him for this purpose. Transfer of the stock to the Excelsior Supply Co. is to be made when the entire issue has been acquired by Cortlend. The following advances had been made to Cortlend:

August	15, 19–,	$15,000
September	6, 19–,	12,000
October	14, 19–,	20,000

On December 31, 19–, Cortlend reported purchases of stock of the Quality Products Corporation as follows:

August	18, 19–,	500 shares at 20
September	16, 19–,	400 shares at 21
October	17, 19–,	800 shares at 25
December	2, 19–,	200 shares at 26

At the same time, he reported that Edward Barcley held the remaining 100 shares which he refused to sell for less than $50 a share. He offered, however, to trade his stock for 50 shares of common stock of the Excelsior Supply Co. On January 2, this exchange was made out of the treasury stock of the Excelsior Co.

The balance sheets of the two companies on December 31, 19–, were as follows:

Assets	Excelsior Supply Co.	Quality Products Corp.
Cash	$ 25,450	$ 2,745
Receivables	55,500	20,750
Inventories	44,700	14,890
Fixed Assets	65,000	28,450
Com. Treas. Stock (100 shares at cost)	11,000	
Advances to Cortlend	47,000	
	$248,650	$66,835
Liabilities and Net Worth		
Payables	$ 35,700	$12,700
Capital Stock:		
Common, par $100	90,000	
Common, par $25		50,000
Preferred	50,000	
Earned Surplus	72,950	4,135
	$248,650	$66,835

On January 2, 19–, Cortlend turned over the 1,900 shares held by him and the balance of cash in his hands less $1,000 for his services. The market value of the common stock of the Excelsior Supply Co. at that time was $105.

It was found that the inventory of the Quality Products Corporation was overvalued $1,000. The fixed assets were taken over at an appraised value of $20,000. After permission was obtained from the state, the stock of the Quality Co. was canceled and its assets and liabilities were merged.

(a) Prepare the necessary journal entries to record the above transactions on the books of the Excelsior Supply Co. and to make such adjustments as you consider proper.

(b) Prepare a balance sheet of the company after the merger.

Assignment 31

1. On December 31, 19–, an inter-ownership is effected among companies R, S, and T whose balance sheets then showed as follows:

Assets	R	S	T
Cash	$ 65,000	$ 17,000	$ 15,000
Accounts Receivable	105,000	35,000	40,000
Notes Receivable	45,000	30,000	25,000
Inventories	75,000	55,000	65,000
Prepaid Expenses		1,000	2,000
Office Equipment	25,000	15,000	5,000
Plant and Machinery		65,000	35,000
Investment in S (85%)	295,000		
Investment in T (90%)		150,000	
	$610,000	$368,000	$187,000

Liabilities and Net Worth			
Accounts Payable	$ 30,000	$ 30,000	$ 25,000
Notes Payable	15,000	15,000	10,000
Dividends Payable	7,500	4,375	2,000
Accrued Expenses	5,000	3,000	2,000
Capital Stock (par $100)	500,000	250,000	100,000
Surplus	52,500	65,625	48,000
	$610,000	$368,000	$187,000

All three companies had declared their quarterly dividends on December 30, 19–, as shown above and the stock interests acquired on December 31 carried the rights to the dividends. On December 31 Co. R's records showed a debt due to Co. T of $10,000 on open account and a claim against Co. S on a note amounting to $10,000.

(a) Prepare consolidated working papers.

(b) Draft a consolidated balance sheet as of December 31, 19–. (Be careful as to form.)

2. The trial balances of Companies A, B and C appear as follows after closing on July 1, 19–, at which time Companies A and B acquired their respective controls:

Assets	Co. A	Co. B	Co. C
Cash	$ 60,000	$ 14,000	$ 19,000
Accounts Receivable	90,000	37,000	26,000
Inventory	120,000	60,000	33,000
Fixed Assets	424,000	213,000	80,000
Investment in Co. B—4,000 shares, $50 par value, at cost	300,000		
Investment in Co. C—800 shares, $100 par value, at cost		100,000	
	$994,000	$424,000	$158,000
Liabilities and Capital			
Accounts Payable	$ 75,000	$ 19,000	$ 7,000
Dividends Payable (Debit Balances)	*37,500*	*25,000*	*4,000*
Capital Stock	750,000	250,000	100,000
Surplus	206,500	180,000	55,000
	$994,000	$424,000	$158,000

(a) Prepare consolidated working papers.

(b) Draft a consolidated balance sheet as of July 1, 19–.

3. The balance sheets of Cos. A and B are as follows on January 1, 19–, when Co. A buys 85% of the common stock of Co. B:

Assets	Co. A	Co. B.
Current Assets	$ 368,100	$377,800
Fixed Assets	500,000	422,000
Investment in Co. B, at cost	425,000	
Bond Discount	8,500	2,500
Goodwill	100,000	50,000
	$1,401,600	$852,300

Liabilities, Reserves, and Capital	Co. A	Co. B.
Notes and Accounts Payable	$ 150,000	$300,000
Sundry Liabilities	6,000	4,500
Bonds Payable	300,000	75,000
Capital Stock Preferred, 6% cumulative, participating, par $100		75,000
Capital Stock Common, par $100	750,000	250,000
Reserve for Workmen's Compensation Insurance		8,700
Reserve for Pensions		10,200
Depreciation Reserve Fixed Assets	35,600	28,900
Surplus from Re-appraisal of Land		10,000
Sinking Fund Reserve	40,000	15,000
Surplus	120,000	75,000
	$1,401,600	$852,300

The bonds of Cos. B and A mature at the end of 15 and 20 years respectively. The terms under which the preferred stock of Co. B was issued provides that after the preferred stock has received a dividend of 6% and the common stock 4% in a given year, in any further distributions of surplus both classes shall participate in proportion to their holdings. Dividends on the preferred are in arrears for the two years just passed.

(a) Prepare consolidated working papers.

(b) Draft a consolidated balance sheet as of the date of consolidation.

4. On January 1, 19–, Co. A purchased an 85% interest in Co. B for $235,000. At the end of the year the trial balances of the two companies —adjusted except for inventories—appeared as follows:

Accounts	Co. A		Co. B	
Cash	$ 30,750		$ 26,500	
Notes Receivable	42,500		41,000	
Accounts Receivable	140,000		90,000	
Inventories, Jan. 1:				
Raw Materials	45,000		25,000	
Goods in Process	82,000		55,500	
Finished Goods	98,000		65,000	
Intercompany Accounts:				
Notes Receivable, Co. B	10,000			
Accounts Receivable, Co. B	15,000			
Plant and Equipment	170,000		91,500	
Goodwill	10,000			
Investment in Co. B	235,000			
Miscellaneous Assets	5,000		17,600	
Notes Payable		$ 15,000		$ 25,000
Accounts Payable		72,500		35,000
Due to Co. A on Account				15,000
Dividends Paid			8,000	
Mortgage Payable		103,000		40,000
Capital Stock (par $100)		500,000		200,000
Surplus		107,950		48,100
Sales		1,720,000		1,125,000
Sales Returns	62,000		50,000	
Purchases	605,000		410,000	

Direct Labor	325,000		190,000	
Indirect Labor	51,000		35,000	
Factory Expenses	60,000		40,000	
Selling Expenses	435,000		293,000	
General Administrative Expenses	75,000		35,000	
Financial Management Expenses	35,000		20,000	
Financial Management Income		6,000		5,000
Company B, Dividend Account		6,800		
	$2,531,250	$2,531,250	$1,493,100	$1,493,100

Inventories on December 31, 19–, were:

Item	Co. A	Co. B
Raw Materials	$43,000	$26,000
Goods in Process	84,000	53,000
Finished Goods	90,000	56,000

In December, 19–, Co. C was organized to acquire control of Co. A either through the purchase of the latter's stock in the open market or through an exchange of shares. Co. C's authorized capital was 7,000 shares of common stock, divided into 500 shares of Class A, voting stock, and 6,500 shares of Class B, non-voting stock, the shares of each class having a par value of $100. The organizers subscribed and paid cash for the 500 shares of Class A stock. On December 31, 19–, the company had acquired an 80% interest in Co. A. The following balance sheet shows the status of Co. C on December 31, 19–:

Cash	$ 45,000	
Subscribers	65,000	
Investment in Company A	595,000	
Organization Expenses	5,000	
Capital Stock, Common:		
Class A, 500 shares		$ 50,000
Class B, 6,500 shares		650,000
Premium on Common Stock		10,000
	$710,000	$710,000

On June 30 of the current year Co. B had declared and paid its regular 4% semi-annual dividend as indicated by the trial balances shown above. On December 31, 19–, Co. B declared its regular 4% semi-annual dividend for the year but this had not yet been booked.

(a) Prepare consolidated working papers. (First prepare balance sheets of Companies A, B, and C that will reflect the exact status at the time of consolidation. On the working papers handle carefully the minority interests involved.)

(b) Prepare a consolidated balance sheet of the three companies.

Assignment 32

1. On January 1, 1931, Co. H purchased 1,500 shares of stock of Co. X for $200,000. On this date, the net worth of Co. X consisted of 2,000 shares of $100 par value common stock and a surplus of $40,000. A year later on January 1, Co. H sold 450 shares of X Co. stock for $70,000, the surplus of Co. X being at that time $63,000. Six months later on July 1, Co. X issued rights to its stockholders to purchase at $105 per share one-half share for every share owned. Co. H exercised its rights and in addition bought 195 shares released by other stockholders who purchased only 80 shares. The remainder was not issued. The surplus of Co. X was $69,000 at this time.

(a) Prepare a statement showing the original consolidated goodwill and its changes.

(b) Draft journal entries necessary to record on the books of Co. H the above transactions. (Assume that Co. H carries its investment accounts on a cost basis.)

2. On January 1, 19–, Co. X purchased a 90% interest in Co. Y at a cost of $200,000 and a 70% interest in Co. Z for $120,000. Condensed balance sheets of the three companies just before the investment appeared as follows:

	Co. X	Co. Y	Co. Z
Net Assets	$600,000	$220,000	$160,000
Capital Stock	500,000	200,000	150,000
Surplus	100,000	20,000	10,000

During the next two years the profits of Co. Y and Co. Z were each $10,000 a year and those of Co. X were $20,000 a year. On January 1, at the end of this 2-year period, Cos. Y and Z each issued rights giving the privilege to subscribe to one-half share of new stock at $100 per share for every share held. Co. X exercised its rights fully but none of the minority holders of Co. Y and only 20% of the minority holders of Co. Z exercised their rights. During the next six months, Co. Y and Co. Z each earned $5,000 and Co. X earned $10,000. During the period of 2½ years under review no dividends were paid.

(a) Prepare a statement showing original consolidated goodwill and its changes.

(b) Prepare a consolidated balance sheet as of the end of the 2½-year period.

3. The post-closing trial balances of Cos. A, B, and C on December 31, 19–, were as shown on the opposite page.

The accounts receivable of Co. A include $6,000 due from Co. B and $4,000 due from Co. C. The accounts receivable of Co. B include $1,000 due from Co. C.

The inventory of Co. A includes merchandise bought from Co. B for $20,000, which is 125% of cost.

Items	Co. A		Co. B		Co. C	
Cash	$ 60,000		$ 14,000		$ 19,000	
Accounts Receivable	90,000		37,000		26,000	
Inventory	120,000		60,000		33,000	
Fixed Assets	424,000		213,000		80,000	
Investment in Co. B: 4,000 shares bought July 1, 19–, at cost of	300,000					
Investment in Co. C: 800 shares bought Jan. 1, 19–, at cost of			100,000			
Accounts Payable		$ 75,000		$ 19,000		$ 7,000
Dividends Paid	37,500		25,000		4,000	
Capital Stock		750,000		250,000		100,000
Surplus		206,500		180,000		55,000
Totals	$1,031,500	$1,031,500	$449,000	$449,000	$162,000	$162,000

At the dates of the above allied company investments, the net worths of Cos. B and C were as follows:

	Jan. 1, 19–	July 1, 19–
Co. C:		
Capital Stock—1,000 shares	$100,000	$100,000
Surplus	49,000	51,000
Co. B:		
Capital Stock—5,000 shares		250,000
Surplus		179,000

(a) Prepare consolidated working papers. (Support this with a statement of derivation of the value of consolidated goodwill.)

(b) Draft a statement of determination of the shares of minority and majority surplus on consolidation.

(c) Draft a consolidated balance sheet as of December 31, 19–.

4. On January 1, 19–, the Marwell Co. purchased 1,530 shares of the stock of the Arlton Co. for $250,000. The net worth of the Arlton Co. at this time consisted of 1,800 shares of $100 par value stock and surplus of $103,000. On December 31, 19–, the trial balances of the two companies before closing were:

Items	Marwell Co.		Arlton Co.	
Cash	$ 61,324		$ 20,316	
Accounts Receivable	76,833		36,214	
Inventory, Jan. 1, 19–	137,682		47,816	
Furniture and Fixtures	13,215		6,000	
Depr. Res. Furn. and Fix.		$ 5,286		
Plant and Equipment	500,000		260,000	
Depr. Res. Pl. and Equip.		100,000		$ 52,000
Investment, Arlton Co.	250,000			
Accounts Payable		53,214		15,318
Capital Stock, Pfd. $100 par		500,000		
Capital Stock, Com. $100 par		150,000		180,000
Surplus		130,000		85,000
Sales		760,254		268,028

	Marwell Co.		Arlton Co.	
Purchases	300,000		100,000	
Labor	200,000		75,000	
Selling Expenses	50,000		10,000	
General Expenses	75,000		20,000	
Factory Expenses	50,000		25,000	
Dividends Received		15,300		
Totals	$1,714,054	$1,714,054	$600,346	$600,346

The furniture and fixtures owned by the Arlton Co. were purchased from the Marwell Co. on July 1. The entry made on the books of the Marwell Co. at the time was as follows:

Cash	$6,000	
Reserve for Depreciation	2,800	
Furniture and Fixtures		$7,000
Surplus		1,800

Merchandise inventories at the end of the year were:

Marwell Co.	$143,680
Arlton Co.	56,734

One-quarter of the merchandise in the Marwell Co. inventory was purchased from the Arlton Co. at 125% of cost. In the January 1 inventory of the Marwell Co. were $36,000 of merchandise bought from the Arlton Co. at 120% of cost. During the year, the total Sales of the Arlton Co. to the Marwell Co. amounted to $70,000, all of which has been paid for in cash.

Accrued Expenses were:

	Marwell Co.	Arlton Co.
Selling Expense	$ 400	$ 90
Factory Expense	200	100
Labor	1,100	500
General Expense	210	130

Deferred Charges were:

Factory Expense	$ 300	$ 95
General Expense	140	110

Depreciation of fixed assets is estimated at 10% per annum.

The change in Arlton Co. surplus during the year was due to a dividend declared and paid.

(a) Prepare consolidated working papers. (Adjust the trial balances of each company before entering them on the consolidated working papers. Follow carefully the instructions in the text as to form of work sheet and the methods of handling intercompany profits on fixed assets and on initial and final inventories.)

(b) Prepare a statement showing the determination of the shares of minority and majority surplus.

(c) Draft consolidated balance sheet as of December 31, 19–.

(d) Draft consolidated profit and loss statement for the year.

Assignment 33

1. The comparative balance sheets of the Knott Manufacturing Corporation as of December 31 for 1931, 1932, and 1933 were as follows:

	1931	1932	1933
Cash	$ 71,000	$ 55,000	$ 75,000
Receivables	416,000	442,000	462,000
Inventories	417,000	490,000	530,000
Fixed Assets	353,000	417,000	490,000
Total Assets	$1,257,000	$1,404,000	$1,557,000
Payables	$ 305,000	$ 441,000	$ 628,000
Accrued Expenses	13,000	16,000	22,000
Capital Stock	700,000	700,000	700,000
Surplus	239,000	247,000	207,000
Total Liabilities and Net Worth	$1,257,000	$1,404,000	$1,557,000
Sales	$5,200,000	$5,500,000	$5,200,000
Profits	81,000	78,000	30,000
Dividends	70,000	70,000	70,000

(a) Prepare a 100% balance sheet for each year and an average balance sheet—also 100%—for 3 years. (Decimals to 4 places only.)

(b) Compute following ratios for each year and for 3-year averages:

(1) Current ratio
(2) Acid test
(3) Sales to receivables
(4) Net worth to total assets
(5) Working capital to net worth
(6) Reinvested profits to profits
(7) Merchandise turnover

(c) Prepare a brief report giving your opinion of the condition of the business.

2. The following are the comparative balance sheets of the Esby Manufacturing Corporation as of June 30 for 1932 and 1933:

Assets	1933	1932
Cash	$ 42,000	$ 60,000
Notes Receivable	60,000	50,000
Accounts Receivable	190,000	165,000
Inventories:		
Raw Materials	80,000	90,000
Goods in Process	40,000	50,000
Finished Goods	135,000	100,000
Temporary Investments	20,000	30,000
Prepaid Expenses	12,000	10,000
Permanent Investments	40,000	40,000
Premium on Permanent Investments	5,000	6,000
Furniture and Fixtures	12,000	10,000
Machinery and Equipment	193,000	160,000
Building	51,000	50,000
Land	30,000	20,000
Goodwill	90,000	100,000
Total	$1.000.000	$941,000

Liabilities and Net Worth	1933	1932
Notes Payable	$ 40,000	$ 20,000
Accounts Payable	190,000	200,000
Accrued Expenses	15,000	12,000
Mortgage Payable	24,000	26,000
Reserve for Doubtful Accounts	3,800	3,300
Reserve for Depreciation	60,000	42,000
Capital Stock, Common, Par $100	200,000	200,000
Capital Stock, 7% Preferred	320,000	300,000
Paid-in Surplus	32,000	30,000
Reserve for Temporary Investments	3,000	6,000
Reserve for Raw Materials Inventory	4,000	2,000
Surplus from Reappraisal of Land	10,000	
Earned Surplus	98,200	99,700
Total	$1,000,000	$941,000

The Net Profit for the year ended June 30, 1933, was $41,500. A 7% dividend was paid on the preferred stock ($300,000) and a 6% dividend on the common stock. For the previous year the net profit was $20,250, and the same dividends were paid during that year.

(a) Prepare a statement of funds and their application.

(b) Prepare a comparative table showing the changes in the following ratios:

(1) Solvency or current
(2) Working capital to current assets
(3) Working capital to net worth
(4) Merchandise to current assets
(5) Liabilities to total assets
(6) Net worth to total assets
(7) Net profits to net worth
(8) Earnings per share of common stock

(c) Comment briefly on the significance of (a) and (b).

3. The Starr Manufacturing Corporation was established on January 1, 1930. The following are its balance sheets on December 31, 1932, and December 31, 1931, respectively:

Assets	1932	1931
Cash	$ 168,276	$ 210,000
Accounts Receivable	389,700	185,000
Inventories:		
Raw Materials	125,000	100,000
Goods in Process	60,000	65,000
Finished Goods	105,000	125,000
Temporary Investments	60,000	64,000
Prepaid Expenses	20,350	15,776
Land	54,000	90,000
Buildings	72,000	120,000
Machinery and Equipment	123,500	190,000
Furniture and Fixtures	14,000	20,000
Organization Expense	10,000	15,000
Goodwill		200,000
Discount on Bonds	16,115	16,374
Total	$1,217,941	$1,416,150

Liabilities, Reserves, and Net Worth	1932	1931
Notes Payable	$ 195,000	$ 160,000
Accounts Payable	410,000	290,500
Accrued Expenses	24,800	20,000
5% 20 year First Mortgage Bonds Payable	150,000	150,000
Reserves:		
For Doubtful Accounts	11,691	5,550
For Depreciation of Buildings	8,640	9,600
For Depreciation of Mach. and Equip.	37,050	38,000
For Depreciation of Furn. and Fix.	4,200	4,000
For Sinking Fund	22,500	
6% Cumulative Preferred Stock, $100 par	100,000	100,000
Common Stock, Par $50	210,000	
Common Stock, No-par, Stated Value $10		400,000
Premium on Preferred Stock	10,000	10,000
Paid-in Surplus on Common Stock		153,500
Earned Surplus	34,060	75,000
Total	$1,217,941	$1,416,150

On September 1, 1932, a machine which had been purchased on May 1, 1930, at a cost of $13,500 was sold for $6,270. The depreciation policy for the machine was based on an estimated scrap value of $1,200 and a life of 10 years.

On October 31, 1932, an appraisal had been made of all the fixed assets, their reproductive costs new being the values shown in their respective accounts in the above balance sheet for 1932. The write-off was charged to Paid-in Surplus. The relative depreciation reserve accounts were adjusted to reflect depreciation of the appraisal values from the date of the company's establishment and were based on the following rates:

Buildings	4%	per annum
Machinery and equipment	10%	" "
Furniture and fixtures	10%	" "

The adjustment of these values was made through the Earned Surplus account. The above rates were used for computing depreciation for 1932.

In addition to the regular cash dividend on preferred stock, the company paid a stock dividend of $10,000 on its common stock, charging the distribution to Paid-in Surplus, the balance of which account was then transferred to Earned Surplus. The company also paid a cash dividend of 4% on its common stock. The change from no-par common to par value common occurred at the time of reappraisal of fixed assets.

A transcript of the company's Earned Surplus account was as follows:

Balance at December 31, 1931		$75,000
Additions:		
Correction of Depreciation Reserves	$16,290	
Transfer from Paid-in Surplus	500	16,790
Total		$91,790

Deductions:		
Loss on Sale of Machine	$ 4,360	
Net Loss for the Year	11,870	
Dividends on Preferred Stock	6,000	
Dividends on Common Stock	8,000	
Write-off of Organization Expense	5,000	
Sinking Fund Reserve	22,500	57,730
Balance at December 31, 1932		$34,060

The decrease in the Bond Discount and the increase in the Reserve for Doubtful Accounts were charged against current operations.

(a) From the above data prepare a statement of funds and their application. (Use the form of work sheet shown on pages 748-749 of the text, giving adequate explanations of all eliminations and restorations.)

(b) Criticise briefly the company's financial condition, as indicated by the statement of funds and their application.

(c) Indicate by journal entries the proper record of the reappraisal adjustments. (See page 539 of the text.)

(d) Make such entries as will bring the books into agreement with the record set up in (c).

4. On December 31, 19–, the stockholders of the Rolewell Corporation and the M. A. Cohler Corporation decide to consolidate and form the Nuway Corporation.

On making a comparison of the two old companies it is found that although they manufacture similar products and operate under similar conditions the Rolewell Corporation for the past 5 years has earned an average annual profit of $12.72 per share while the M. A. Cohler Corporation has earned only $9.32 per share.

The directors of the Nuway Corporation ask you to prepare a statement to aid them in formulating policies for the future showing why the Rolewell Corporation earns a larger rate of profit on the capital stock.

The post-closing trial balances of the two corporations as of December 31, a year ago, were as follows:

Items	Rolewell Corporation		M. A. Cohler Corporation	
Cash	$ 6,200		$ 105,832	
Notes Receivable	50,000		10,000	
Accounts Receivable	70,000		260,000	
Inventories:				
Raw Materials	40,000		175,000	
Goods in Process	30,000		60,000	
Finished Goods	60,000		210,000	
Temporary Investments	40,000			
Office Furniture	8,000		15,000	
Depreciation Reserve Furniture.		$ 3,200		$ 6,000
Machinery and Equipment	100,000		200,000	
Depreciation Reserve Machinery		20,000		40,000
Building	40,000		75,000	
Depreciation Reserve Building		4,000		7,500

Land	10,000		30,000	
Notes Payable		10,000		60,000
Accounts Payable		70,000		280,000
Bonds Payable—6%		100,000		
Reserve for Doubtful Accounts.		1,400		3,200
Capital Stock (Par $100)		200,000		600,000
Surplus		44,700		140,841
Insurance	100		200	
Interest Expense		1,300		900
Interest Income	1,500		150	
Taxes	100		175	
Direct Labor		900		1,936
Indirect Labor		400		980
Total	$455,900	$455,900	$1,141,357	$1,141,357

The current preclosing unadjusted trial balances as of December 31, 19–, were as follows:

Items	Rolewell Corporation		M. A. Cohler Corporation	
Cash	$ 15,000		$ 96,000	
Notes Receivable	45,000		15,000	
Accounts Receivable	75,000		250,000	
Inventories:				
Raw Materials	40,000		175,000	
Goods in Process	30,000		60,000	
Finished Goods	60,000		210,000	
Temporary Investments	45,000			
Office Furniture	9,000		17,000	
Depreciation Reserve Furniture.		$ 3,200		$ 6,000
Machinery and Equipment	110,000		215,000	
Depreciation Reserve Machinery		20,000		40,000
Building	40,000		75,000	
Depreciation Reserve Building		4,000		7,500
Land	10,000		30,000	
Notes Payable		15,000		50,000
Accounts Payable		65,000		245,000
Bonds Payable—6%		100,000		
Reserve for Doubtful Accounts.		200		300
Capital Stock		200,000		600,000
Surplus		44,700		140,841
Dividends Paid	20,000		42,000	
Sales—Net		365,000		727,919
Purchases—Net	140,000		270,000	
Freight-In	4,500		8,400	
Direct Labor	75,000		140,000	
Indirect Labor	25,000		47,000	
Factory Expenses	6,500		14,000	
Insurance	700		1,100	
Taxes	350		560	
Selling Expenses	17,000		33,000	
Officers' Salaries	15,000		35,000	
Office Salaries	20,000		45,000	
Stationery and Printing	1,000		2,300	
Telephone and Telegraph	1,500		3,200	
General Expenses	10,000		23,000	

Items	Rolewell Corporation		M. A. Cohler Corporation	
Interest Income		6,800		800
Interest Expense	6,600		2,500	
Collection Expense	750		2,700	
Sales Discount	4,000		7,000	
Purchase Discount		3,000		1,400
Total	$826,900	$826,900	$1,819,760	$1,819,760

Final Inventories were as follows:

	Rolewell	M.A.Cohler
Raw Materials	$39,000	$170,000
Goods in Process	30,000	60,000
Finished Goods	56,000	205,000

Prepaid Expenses were:

Insurance	$300	$600
Taxes	100	180

Bad debts are to be estimated at such an amount as will increase the Reserves for Doubtful Accounts to 2% of the outstanding Accounts Receivable.

Accrued Income was:

Interest	$600	$175

Accrued Expenses were:

Direct Labor	$2,000	$3,000
Indirect Labor	700	1,000

Depreciation is to be estimated at the following rates:

Office Furniture	10%
Machinery and Equipment	10%
Buildings	2%

(a) Prepare a comparative balance sheet for each company.

(b) Prepare for each company a statement of funds and their application. (Use the form of work sheet shown on pages 748-749 of the text.)

(c) Prepare such ratios as you consider necessary to explain the difference in earning capacity.

(d) Write a report of not less than 750 words to the directors of the Nuway Corporation, giving such information as you consider pertinent to the terms of your employment.

Assignment 34

1. On December 31, 19–, the post-closing trial balance of the Nelway Corporation showed as follows:

Cash	$ 60,000	
Notes Receivable	10,000	
Accounts Receivable	100,000	
Reserve for Doubtful Accounts		$ 2,200

Merchandise Inventory	142,200	
Plant and Equipment	1,000,000	
Depreciation Reserve Plant and Equipment		200,000
Treasury Stock—7% Preferred	10,000	
Notes Payable		40,000
Accounts Payable		110,000
First Preferred Capital Stock—7% Cumulative Participating		200,000
Second Preferred Capital Stock—7½% Cumulative		200,000
Common Capital Stock		300,000
Surplus		270,000
Totals	$1,322,200	$1,322,200

Due to unprofitable operation brought about by the competition of patented products and upon petition of its stockholders, the directors undertake dissolution of the corporation.

Under the terms of its issue—agreed to by holders of the first preferred stock—the second preferred stock is upon dissolution entitled to $105 per share. In any surplus remaining after all classes of stock have been liquidated, the entire issue of first preferred and the common share equally—not ratably. The terms of issue of the first preferred provide with regard to dividends that only after the common stock shall have received a 7% dividend each year shall the first preferred participate in any further distributions, and then there shall be equal participation by the two classes in the dividend fund. No dividends on the first preferred have been declared for the current year and there is at the date of dissolution a 15% dividend accumulation on the second preferred. The common has received no dividend for the past 3 years and only 3% in the year just previous thereto. In all other years it has received at least 7%.

The following sums were realized from sale of the company's assets:

Notes Receivable	$ 9,375	Merchandise Stocks	$133,275
Accounts Receivable	95,000	Plant and Equipment	760,000

All liabilities and liquidation expenses of $11,350 are paid.

(a) Prepare a liquidation profit and loss statement.

(b) Prepare a tabular statement showing the equities of the various classes of stock in the net assets.

(c) Draft journal entries to record the dissolution of the corporation and the payments to stockholders.

2. On July 1, 19–, Arnold, Blake, and Chandler agreed to dissolve their partnership. Their financial status on that date appeared as follows:

POST-CLOSING TRIAL BALANCE
June 30, 19–

Cash	$ 9,300	
Notes Receivable	12,000	
Accounts Receivable	75,000	
Reserve for Doubtful Accounts		$ 1,500
Merchandise Inventory	50,000	

Accrued Interest Income	200	
Furniture and Fixtures	15,000	
Reserve for Depreciation		7,000
Delivery Equipment	20,000	
Reserve for Depreciation		6,000
Notes Payable		15,000
Accounts Payable		31,000
Accrued Interest Expense		250
Accrued Wages		750
Arnold, Capital		50,000
Blake, Capital		30,000
Chandler, Capital		40,000
Totals	$181,500	$181,500

A transcript of the cash book for the period of dissolution shows the following transactions:

	Receipts		*Payments*	
July	Total mdse. inv.	$35,000	Notes Payable	$15,000
	All furn. and fix.	2,000	Interest	260
	All delivery equip.	9,000	Wages	750
	Accounts Receivable	10,000	Accounts Payable	20,000
Aug.	Notes Receivable	7,000	Expenses	250
	Interest	160	Accounts Payable	10,000
	Accounts Receivable	25,000	Expenses	300
Sept.	Notes Receivable	5,000	Accounts Payable	1,000
	Interest	135	Expenses	200
	Balance of accts. rec.	30,000		

The balance of cash at the end of each month was distributed to the partners.

(a) Prepare a tabular statement showing the three cash distributions.

(b) Prepare journal entries to record all of the above transactions and to close the books.

3. The post-closing trial balance of the Alpha Co. on December 31, 19–, appeared as follows:

Cash	$ 10,000	
Notes Receivable	15,000	
Accounts Receivable	40,000	
Merchandise Inventory	60,000	
Plant and Equipment	600,000	
Depreciation Reserve Plant and Equipment		$100,000
Treasury Stock, Common	50,000	
Treasury Stock, Preferred	25,000	
Notes Payable		80,000
Accounts Payable		90,000
Capital Stock, 7% Cumulative Participating Preferred		400,000
Capital Stock, Common		100,000
Surplus		30,000
Total	$800,000	$800,000

On that date Omega Products, Inc., purchased the assets and assumed the liabilities of Alpha Co. on the basis of the above balance sheet with the following adjustments and in accordance with the following agreements:

(1) The receivables—both notes and accounts—will be valued at 98% of their book values.

(2) The reserve for depreciation is to be increased by $30,000.

(3) The Alpha Co. is to receive from Omega Products, Inc., 6,000 shares of its capital stock at its par value of $100 per share.

(4) The difference between the net assets of the Alpha Co. and par value of stock received therefor represents price paid for goodwill.

The transfer of properties and stock is made on the above basis and Alpha Co. makes a complete liquidation and is dissolved. In liquidating, note is taken of the fact that dividends on the preferred stock of the Alpha Co. have not been paid for 2 years and dividends on the common stock have not been paid for 5 years. Under the terms of issue of the preferred stock these dividends at the rate of 7% are to be paid before any liquidating dividends are paid. In the liquidating dividends both classes of stock share ratably. The Alpha Co. sells 1,750 of Omega Products shares for $180,000 cash. Unpaid dividends are paid and the remaining assets are distributed to the stockholders.

On the date of purchase of the assets of Alpha Co. the balance sheet of the Omega Products, Inc., appeared as follows:

Cash	$ 100,000	Notes Payable	$ 10,000
Notes Receivable	40,000	Accounts Payable	100,000
Accounts Receivable	160,000	Bonds Payable	200,000
Merchandise Inv.	204,000	Res. for Doubt. Accts.	4,000
Plant and Equip.	800,000	Depr. Res. Pl. & Equip.	200,000
		Capital Stock	400,000
		Surplus	390,000
	$1,304,000		$1,304,000

(a) Prepare a liquidation profit and loss statement of Alpha Co.

(b) Prepare journal entries to record all of the above transactions on the books of the Alpha Co.

(c) Draft a balance sheet of Omega Products, Inc., after the merger.

4. A, B, and C, partners, sharing profits and losses, A, 35%; B, 40%; C, 25%, decide to liquidate. On that date, December 31, 1932, their balance sheet is as follows:

Assets		*Liabilities and Proprietorship*	
Cash	$ 6,000	Accounts Payable	$13,000
Accounts Receivable	20,000	Loan from B	10,000
Merchandise Inventory	25,000	A Capital	40,000
Fixed Assets	42,000	B Capital	25,000
		C Capital	5,000
	$93,000		$93,000

B's loan bears interest at the rate of 6% per annum. The interest for the current year has been credited to B's capital account.

During January, 1933, all the merchandise is sold for $22,000 cash. During the next month the accounts receivable realize $18,755—the balance being considered bad—and in March, 1933, the fixed assets are sold for $30,000 cash. Liquidating dividends are paid at the end of each month.

Expenses amounting to $1,000 are paid during January, $1,000 during February, and $3,000 during March, these items comprising all the costs of liquidation.

(a) Draw up a schedule showing the distributions of cash to the partners at the end of each month.

(b) Give the journal entries necessary to record the dissolution.

Assignment 35

1. The Ravenswood Novelty Co., finding itself in financial difficulties, on February 1, 19–, applied for a receiver. At that time its balance sheet appeared as follows:

Cash	$ 32,630	
Notes Receivable	37,860	
Accounts Receivable	146,230	
Merchandise Inventory	97,390	
Investments	29,000	
Equipment	290,600	
Notes Payable		$ 60,000
Accounts Payable		320,000
Capital Stock		100,000
Surplus		153,710
Total	$633,710	$633,710

A receiver is appointed at once and upon taking charge finds the following status of affairs:

Accrued expenses, not reflected on the above balance sheet, amount to $4,736 of which $1,400 represent wages and $2,175 taxes.

The investments, which will probably realize $23,000, have been pledged as security for a note of $20,000. The notes receivable are expected to realize 95%.

Of the accounts receivable $40,000 have been assigned as security for an equal amount of accounts payable. These accounts receivable are expected to realize 97%. It is estimated that 75% of the remaining accounts receivable will be collected, the balance being worthless.

The merchandise inventory is valued at $60,000 for quick sale, and the equipment is similarly estimated as worth $100,000. The corporation also owns a patent not shown on the books which will probably realize $4,000.

(a) Prepare a statement of affairs and a deficiency account.

(b) If the expenses of liquidation amount to $7,000 what percentage may the unsecured creditors expect to receive? (Prepare a tabular statement to show your computation.)

2. On July 1, 19–, the date of the following post-closing trial balance, the Wilmette Manufacturing Co. decides to file a petition of voluntary bankruptcy:

Cash	$ 11,236	
Notes Receivable	15,000	
Accounts Receivable	47,000	
Merchandise Inventory	103,000	
Furniture and Fixtures	10,000	
Depr. Res. Furn. and Fix.		$ 6,000
Machinery and Equipment	263,000	
Depr. Res. Mach. and Equip.		78,900
Building	150,000	
Depr. Res. Building		15,000
Land	30,000	
Notes Payable		100,000
Accounts Payable		200,000
First Mortgage Bonds		100,000
Accrued Bond Interest—3 mos.		1,625
Capital Stock		200,000
Deficit	72,289	
Totals	$701,525	$701,525

The trustee, appointed by the creditors, was given authority to purchase new merchandise if he deemed it desirable in order the better to realize on present stocks, all sales, however, to be for cash. Accordingly, he bought on account new stocks amounting to $50,000. The assets were converted into cash at the best prices obtainable, with the following results:

Notes rec. brought	$ 15,100	Furn. & fix, sold with privilege of use during liquidation, brought	$ 1,000
Accts. rec. realized	45,000		
Sales of stock in trade were	60,000		
Mach. & equip. brought	120,000		

Liabilities were liquidated in the following amounts:

Notes payable	$100,000	Accounts payable	$100,000
Trustee's expenses	10,000		

At the end of 3 months, September 30, the creditors ask for a statement of condition and the trustee reports the above activities and the present status of the estate as follows:

Land and building still unsold.		Accounts payable unliquidated	$150,000
Inventory on hand	$43,500	Bonds payable and accrued interest still unliquidated.	
Accrued expenses of operation	3,000		

(a) Prepare the trustee's summary cash account.

(b) Prepare a realization and liquidation statement. (Use the columnar form illustrated on pages 794-795 of the text.)

3. The trial balance of the Lawrence-Kildare Co.—adjusted except as to inventory and judgment payable—appears as follows on June 30, 19–:

Cash	$ 20,000	
Notes Receivable	30,000	
Accounts Receivable	90,000	
Merchandise Inventory, Jan. 1	120,000	
Prepaid Expenses	1,100	
Equipment	200,000	
Depreciation Reserve Equipment		$ 100,000
Building	100,000	
Depreciation Reserve Building		20,000
Land	40,000	
Notes Payable		72,000
Accounts Payable		140,000
Wages Accrued		1,200
Taxes Accrued		1,100
Mortgage Payable—Land and Building		60,000
Mortgage Interest Accrued		1,800
Capital Stock		250,000
Surplus		5,000
Sales		460,000
Purchases	300,000	
Factory Expenses	75,000	
Selling Expenses	60,000	
General Expenses	65,000	
Financial Expenses	10,000	
Total	$1,111,100	$1,111,100

On May 15 a judgment for $100,000 had been rendered against the corporation for damages caused by unfair competitive practices which the corporation had engaged in. Pending decision on motion to appeal, no record had yet been made of the liability. Denial of the appeal was handed down on June 30. Unable to raise funds and in view of its generally unsatisfactory financial and operating condition, the company decided to suspend operations and liquidate. Accordingly, an appraisal of the situation was made, with the following results:

Inventory of merchandise on hand valued at cost amounts to $123,000. The notes receivable have been pledged as security for a note payable of like amount. The assets upon forced sale were expected to realize the following sums:

Notes Receivable	$30,000	Equipment	$40,000
Accounts Receivable	85,000	Building	65,000
Merchandise Inventory	75,000	Land	50,000

Expenses of liquidation are estimated as $7,530.

(a) Prepare a going concern balance sheet as of June 30, 19–.
(b) Prepare a going concern profit and loss statement for the period.
(c) Prepare a statement of affairs on the basis of liquidation values.
(d) Prepare a deficiency account.

4. On February 1, 19–, a trustee was appointed for the Kenworth Company. The trial balance appeared as follows on that date:

Cash	$ 4,000	
Accounts Receivable	90,000	
Reserve for Doubtful Accounts		$ 730
Inventory, Jan. 1	48,600	
Furniture and Fixtures	40,000	
Depreciation Reserve Furn. and Fix.		16,000
Building	200,000	
Depreciation Reserve Building		12,000
Land	90,000	
Notes Payable		50,000
Accounts Payable		200,000
First Mortgage Bonds Payable		100,000
Bond Interest Accrued, Dec. 31		1,000
Capital Stock		200,000
Deficit	107,280	
Sales		30,000
Purchases	19,000	
Selling Expenses	7,000	
General Expenses	2,145	
Sales Discount	320	
Purchase Discount		190
Bond Interest	1,500	
Other Interest	75	
Total	$609,920	$609,920

Upon taking charge, the trustee secured the following information relative to the affairs of the company on February 1:

Prepaid selling expense	$200	Accrued selling expense	$110
Prepaid general expense	315	Accrued general expense	190
Prepaid interest expense	25	Accrued interest on notes	250

Bond interest is payable quarterly on the last day of the month at 6% per year.

The inventory of merchandise was $45,000, at cost.

There is accrued depreciation for 1 month, the annual rates being 10% on furniture and fixtures and 2% on building.

The trustee was authorized to operate the business in an effort to secure better prices upon sale of its assets. His operations for the first five months comprised the following transactions:

Sale of merchandise on account			$149,000
Purchase of merchandise on account			87,000
Sale of all furniture and fixtures (cash)			10,000
Cash paid on new accounts payable			87,000
Cash paid for selling expenses			20,000
Cash paid for general expenses			16,000
Collections from customers—gross		$239,000	
Less: Discounts	$2,930		
Bad debts	5,760	8,690	
Net collections			$230,310
Cash paid for interest on notes			930

As of May 31, the bondholders' protective committee purchased the company's equity in the building and lot for $110,000.

By June 30, the trustee had sold all of the company's assets and had liquidated all debts excepting accounts payable of $200,000, notes payable of $50,000, accrued wages of $300, and trustee's expenses and commission of $7,500. The referee orders distribution of the final liquidating dividend and the trustee makes the payment.

(a) Prepare the trustee's summary cash account.

(b) Prepare a realization and liquidation statement. (Draft a balance sheet as of February 1 as the basis for the trustee's accounting.)

Assignment 36

1. The estate of William Garwell, deceased, consisted of the following assets which were appraised as required by the probate court:

Items	Appraised Value
Real Estate:	
Building A	$25,000
Building B	15,000
Vacant lot 1	3,000
Vacant lot 2	9,000
Home	12,000
Household Effects	4,000
Jewelry	2,000
Automobile	2,000
6% Mortgage—Interest payable July 1 and Jan. 1	50,000
Cash	5,000

The will provided for the following disposition of the estate:

Widow, Alice—Home, household effects, and the income from the mortgage for life.

Daughter, Margaret—Jewelry, $5,000 in cash, and the automobile.

Son, Harold—Building B, and $5,000 in cash.

Son, Arthur—Vacant lots and $5,000 in cash.

Any assets not otherwise disposed of were to be given to the widow. At the death of the widow the mortgage was to be sold and the proceeds divided among the three children.

At the time of death (January 31, 1933) debts of $700 existed against the estate. These were paid and funeral expenses of $900 and legal and probate expenses of $1,200 were also paid.

On July 1, 1933, building A was sold for $27,000, mortgage interest was received, and $1,250 was paid to the widow.

The widow died July 15, 1933, leaving Margaret her entire estate.

On July 31 all legacies except the residue were paid.

(a) Prepare the account of proceedings for presentation to the court in closing the estate as at August 1, 1933. (Disregard federal and state inheritance and estate taxes. Compute executor's commissions

in accordance with the schedule of rates shown on page 813 of the text. In computing commissions treat the balance of the Account of Proceedings as if already distributed.

2. Vincent Carver stipulated in his will that the residue of his estate should be held in trust, the income to be paid to his widow and the principal held for his son. On January 1, 1932, the executor turned over to the trustee the residue of the estate, amounting to $67,380.16 in cash. On the same date the trustee purchased the following bonds:

20 $1,000 Alpha Co., 5% bonds due January 1, 1937, interest January 1 and July 1, purchased to yield 4¾%.

47 $1,000 Beta Co., 5% bonds, due March 1, 1942, interest March 1 and September 1, purchased to yield 6%.

Interest is regularly received and the trustee's commission of 3% of gross income is regularly paid.

(a) Prepare a statement showing the income payable to the widow on July 2, 1932, January 2, 1933, and July 2, 1933. (Note that $(1.02375)^{10} = 1.2645592$ and $(1.03)^{21} = 1.8602946$.)

(b) Prepare a statement of the assets comprising the principal of the trust on July 2, 1933.

3. On July 2, 1933, William Harper died leaving a net estate of $268,360 to be divided equally among his four children, Charles, Herbert, Elizabeth, and Florence. Before making the distribution, however, it is discovered that his first wife, at her death on August 1, 1925, left $18,000 in cash and $40,000 in 6% bonds, interest payable on January 1 and July 1 to be divided equally between Charles and Florence. The father had taken charge of the money and the bonds, since the children were not of age at the time of his first wife's death. He had collected all income on the bonds to the time of his death. Such interest and the bonds themselves were included in his estate at their par value.

(a) Prepare a statement showing how much each of the four children should receive from his estate. (Compute simple interest at 5% on all money collected by the father belonging to Charles and Florence.)

4. James M. Browning died November 1, 1932, leaving his jewelry and one-third of his other property, net after debts and expenses, to his daughter, the balance to be held in trust, the income from which she is to receive during life, the principal, at her death, going to the Society of the Friends of the Poor. The estate was appraised as follows:

2,000 shares Beauchamp Co.—no-par	$180,000
3,000 shares Challis Almers Co.—no-par	136,000
1,000 shares Great Eastern Ry. Co.—$100 par	84,000
5,000 shares General Bisquit—no-par	224,000
Moneys in bank	30,500
Jewelry	11,500
Total	$666,000

Dividends had been declared as follows:

$2.00 Beauchamp Co.—declared 10/1, payable 11/2, to stock of record 10/16
2% Great Eastern Ry.—declared 10/1, payable 11/6, to stock of record 10/15
$1.75 General Bisquit—declared 10/7, payable 11/6, to stock of record 10/16

From November 1, 1932, to November 1, 1933, the cash receipts were:

Beauchamp Co.—2 semi-annual dividends	$ 8,000
Challis Almers Co.—4 quarterly dividends	9,000
Great Eastern Ry. Co.—4 quarterly dividends	8,000
General Bisquit Co.—2 semi-annual dividends	17,500
Interest on bank balances	600
Total	$43,100

Cash disbursements for the same period were:

Debts of testator	$ 7,500
Expenses of funeral	2,000
Income to the daughter	25,000
Total	$34,500

The executor paid the daughter the balance of income due her on November 1, 1933, and distributed the principal—in accordance with the terms of the will—at appraised values to the daughter and the trust company.

(a) Compute the executor's commissions. (See page 813 of text for rates.)

(b) Prepare the executor's account of proceedings. (Include the supporting schedules. Disregard any consideration of federal and state inheritance taxes.)

PART II

PRACTICE SET

In the author's opinion there is an all too prevalent belief that the problems of accounting can be mastered through the medium of the short individual practice problem. Accordingly, increasingly less attention is being given to the long connected problem practice set. The educational value of the repetitive process as a means of establishing mental habits and fixing procedures and techniques in mind is lost sight of. It is probably true that many of the interpretative processes and methods can be taught as well or better by the use of short problems. Interpretation, while very important, does not comprise the whole field of accounting. There are at least three other fields, viz. (1) constructive accounting or system building; (2) recordative accounting or bookkeeping; and (3) proof accounting, proving the accuracy and propriety of the record—the field of auditing. These fields cannot be taught successfully by the sole use of short problem material; their basis, their raw materials are found in the set of accounting records.

The criticism is often made—and unfortunately it is well founded in too many instances—that the accounting graduate can talk and argue about a lot of intricate accounting problems but his ability to execute, to do, is sadly lacking. Some public accounting firms insist—or at least prefer—that applicants shall have had at least a year's experience as bookkeepers before being taken on as junior accountants. The author has a good deal of sympathy with this viewpoint, but believes that the practice set—the long connected problem—if properly devised to emphasize the basic problems of bookkeeping analysis, variety of books used, accuracy of record, and proper principles in the drafting of summary reports based on the detailed bookkeeping record, together with plenty of well-selected short problems—will turn out a better trained, more intelligent product than that trained by an apprenticeship in the ordinary bookkeeper's position. And the student of general business is better

equipped to use and interpret accounting data if he is thoroughly familiar with their sources and the methods by which they have been built up.

It is for this reason that this supplementary material, comprising a set of related data for record in blank books, is offered. The repetitive data—sales, purchases, collections, payments, etc.—have been kept to a minimum, summarized where possible, and emphasis has been placed on events and transactions of less frequent occurrence. The material presented is sufficient to furnish about one-third of the usual practice work required for one semester of a 3 or 4-credit point course. The material is planned to run through 10 weeks of a 15 or 16-week semester. It will thus provide about one-half of the practice work needed for the 10-week period, the balance being secured by the use of the short problems in the other section of this manual.

Because of the nature of the problems involved, it is suggested that this set be started in connection with the text material beginning with Chapter 20 of *Advanced Accounting*. It can then be completed and out of the way before the student is introduced to the topic of consolidated statements to which he should give undivided attention. This material may be used in connection with the work of the first semester, but such use will place an added burden on the instructor because of the necessity of a more careful direction of the students' work. The author will be glad to suggest a specific combination of this set material with the short problem material of the other section.

Assignment 1

This set contains material relating to a corporation engaged in regular trade, manufacture, and consignment selling and presents some trade practices peculiar thereto and a system of records devised to provide the kinds of information needed in the management of such a business. Special ledgers and journals are made use of.

The student's work for this first assignment will be limited to opening his books, i.e., setting up the accounts to be used in the various ledgers and familiarizing himself with the bookkeeping routines for recording the various types of transactions in the different journals.

Accordingly, the following accounts are to be opened in the various ledgers as indicated. The account number is to be entered at the left of the account title, thus: 111—Furniture Guild National Bank. The page and space allotment are shown at the right in the chart of accounts below.

The general ledger is of the usual type. In it open the following accounts at the places indicated:

Acct. No.	Account Title	Lines Allowed	Page
Current Assets			
111	Furniture Guild National Bank	10	1
1121	City National Bank—Petty Cash—Office	10	1
1122	Petty Cash—Factory	10	1
113	Notes Receivable	10	1
114	Notes Receivable Discounted	10	2
1151	Trade Debtors	10	2
1152	Consignment Accounts Receivable	10	2
115V	Reserve for Doubtful Accounts	10	2
115R	Reserve for Sales Discounts	10	3
1161	Inventory—Upholstered Furniture	10	3
1162	Inventory—Raw Material	10	3
1163	Inventory—Goods in Process	10	3
1164	Inventory—Finished Goods	10	4
1165	Inventory—Consigned Goods	10	4
1166	Goods on Order—Upholstered Furniture	10	4
116V	Merchandise Valuation	10	4
1171	Prepaid Expenses	20	5
1172	Salesmen's Advances	10	5
118	Accrued Income	5	5
119	Prepayment on Purchases	5	5
120	Prepayment on Royalties—Malvin Medison	10	6
Fixed Assets			
131	Plant and Sundry Assets	10	6
132	Plant and Equipment	10	6
132V	Depreciation Reserve Plant and Equipment	10	6
Other Assets			
141	Subscribers to Capital Stock	10	7
142	Deposits with Utilities	10	7
143	Deposits on Bids	10	7
144	Other Accounts Receivable	10	7
145	Loans to Officers and Employees	10	8
146	Bankers	10	8
147	Bond Discount and Expense	10	8
148	Organization Expense	10	8
149	Sinking Fund Trustee	10	9
Current Liabilities			
211	Henry Williams, Inc.	10	10
212	Notes Payable	10	10
213	Vouchers Payable	20	10
214	Purchase Commitments	10	11
215	Dividends Payable—Preferred Stock	10	11
2161	Dividends Payable—Class A—Common Stock	10	11
2162	Dividends Payable—Class B—Common Stock	10	11
217	Accrued Expenses	20	12
218	Reserve for Repairs and Maintenance	10	12
219	Liability under Agreement to Issue Notes	10	12
220	Accounts Payable—Building Contracts	10	13
Fixed Liabilities			
231	Mortgage Payable	10	13
232	Long-Term Notes (Due June 30, 19–)	10	13

Acct. No.	Account Title	Lines Allowed	Page
Capital			
311	Capital Stock Subscriptions—7% Cumulative Preferred	10	14
312	Capital Stock Subscriptions—Common	10	14
313	Capital Stock Subscriptions—No-Par Common—Class A	10	14
315	Capital Stock—7% Cumulative Preferred	10	14
316	Capital Stock—Common	10	15
317	Capital Stock—No-Par Common—Class A	10	15
318	Capital Stock—No-Par Common—Class B	10	15
3211	Paid-in Surplus	10	15
3212	Re-appraisal Surplus	10	16
3213	Re-appraisal Surplus—Realized	10	16
3214	Sinking Fund Reserve	10	16
3215	Earned Surplus	10	16
Temporary Proprietorship			
1001	Profit and Loss	20	17
1002	Cost of Sales—Upholstered Furniture	10	17
1003	Cost of Sales—E-Z Chairs	10	17
1004	Manufacturing Account	20	18
1005	Cost of Raw Materials Used	10	18
4011	Sales—Upholstered Furniture	10	19
4021	Sales Returns and Allowances—Upholstered Furniture	10	19
4012	Sales—E-Z Chairs	10	19
4022	Sales Returns and Allowances—E-Z Chairs	10	19
403	Consignment Shipments	10	20
5011	Purchases—Upholstered Furniture	10	20
5021	Purchase Returns and Allowances—Upholstered Furniture	10	20
5012	Purchases—Raw Materials	10	20
5022	Purchase Returns and Allowances—Raw Materials	10	21
5031	Freight and Cartage Inward—Upholstered Furniture	10	21
5032	Freight and Cartage Inward—Raw Materials	10	21
504	Receiving and Shipping Room Expense	10	21
550	Direct Labor	10	22
600	Manufacturing Expense	10	22
700	Selling Expense	20	22
800	General Administrative Expense	10	23
900	Financial Management Expense	15	23
950	Financial Management Income	15	23
975	Fixed Asset Clearing Account	10	24
976	Profit or Loss on Disposal of Fixed Assets	10	24
977	Fire Loss Account	10	24
978	Estimated Profit or Loss on Valuation of Merchandise Inventory	10	24
979	Cost of Demolition—Building	10	25

The Consignment ledger is a double ledger—two ledgers in one binder. Each account has 4 columns, the first 2 columns, debit and credit, comprising the Consignment Shipments ledger or section, and the

other columns, debit and credit, comprising the Consignment Accounts Receivable ledger, or section. The first of these ledgers is really a memorandum ledger to show at all times in whose possession consigned goods are. Consigned goods are billed at arbitrary prices, the consignee having authority to sell at the best prices obtainable. Actual sales, therefore, as reported by consignees will be at prices different from those billed. Since the billing and ultimate sale and settlement involve the same consignee the combination of these activities in one ledger effects a considerable saving of labor.

The debits to individual consignees on the consignment shipments ledger for consigned goods shipped come from the Sales and Consignment Shipments Journal in the same manner as a charge to a trade debtor's individual account in the Trade Debtors Ledger comes from the customary Sales Journal. The credits to the consignment shipments individual accounts on the Consignment Shipments Ledger come from the Consignment Sales and Commission Journal. The debits to Consignment Accounts Receivable individual accounts also come from the Consignment Sales and Commission Journal and are for the actual sales reported by consignee. Credits to Consignment Accounts Receivable individual accounts come from the same journal for the amount of the commissions and from the Cash Receipts Journal for cash remitted. See pages 138 and 139 for an explanation of the two Consignment journals.

Open the following accounts in the Consignments Ledger:

Chicago Furniture Sales Corp., Chicago, Ill.
Haskens and Dells Decorative Corporation, New York, N. Y.
St. Louis Furniture Mart, St. Louis, Mo.
San Francisco Furniture Exchange, San Francisco, Calif.
Sundry Consignment Customers.
United Furniture Chain Stores, Inc., New York, N. Y.

The subsidiary Expense and Income ledgers provide for a columnar analysis of the respective control accounts. The ledger page is ruled off in numerous vertical columns, as follows: date, voucher number, folio reference, total and numerous money columns, one for each class of expense designated by the appropriate account number. The total column will agree with the balance in the account on the general ledger.

All credit entries to Expense Ledger accounts will have to be entered in red, indicating a subtraction item. Similarly all debit entries to the Income Ledger accounts will be entered in red.

In recording accruals and prepaid items at the close of the fiscal period, the prepaid and accrued expense accounts in the general ledger will be used. For detailed instructions see page 156.

The following accounts will be used in the various Expense ledgers and the Income ledger:

MANUFACTURING EXPENSE LEDGER ACCOUNTS

Acct. No.	Account Title	Acct. No.	Account Title
601	Indirect Labor	607	Telephone and Telegraph
602	Officers' Salaries	608	Insurance
603	Light, Heat, and Power	609	Royalties
604	Tool Expense	610	Taxes
605	Factory Supplies	611	Repairs and Maintenance
606	Sundry Factory Expense	612	Depreciation

SELLING EXPENSE LEDGER ACCOUNTS

701	Officers' Salaries	709	Freight-Out, Upholstered Furniture
702	Commission on Sale of Upholstered Furniture	710	Freight-Out, E-Z Chairs
703	Commission on Sale of E-Z Chairs	711	Telephone and Telegraph
704	Traveling Expenses	712	Insurance
705	Delivery Expense—Truck	713	Light, Heat, and Power
706	Salesmen's Auto Expense	714	Sundry Selling Expenses
707	Advertising	715	Receiving and Shipping Room Expense
708	Designs, Plates, and Engraving	716	Repairs and Maintenance
		717	Depreciation
		718	Taxes

GENERAL ADMINISTRATIVE EXPENSE LEDGER ACCOUNTS

801	Officers' Salaries	806	Insurance
802	Office Salaries	807	Taxes
803	Telephone and Telegraph	808	Light, Heat, and Power
804	Stationery and Printing	809	Depreciation
805	Sundry Office Expense	810	Repairs and Maintenance

FINANCIAL MANAGEMENT EXPENSE LEDGER ACCOUNTS

901	Interest and Discount Expense	905	Mortgage Interest
902	Bond Interest and Amortization	906	Organization Expense Amortization
903	Sales Discount	907	Credit and Collection Expense
904	Bad Debts		

FINANCIAL MANAGEMENT INCOME LEDGER ACCOUNTS

951	Interest Income	952	Purchase Discount

The Plant and Equipment Ledger contains all of the fixed asset accounts. This ledger provides an account for each group of units coming under one common heading, i.e., there are numerous units of machinery in the factory, the value of which is carried in an account titled "Machinery and Equipment, Factory," etc. The ledger is designed so that each account shows (a) the original cost of the asset, (b) any additions or betterments, (c) retirements, and (d) depreciation. Accordingly, the following columns are necessary: (1) date, (2) particulars, (3) voucher number, (4) folio reference, (5) cost—additions and betterments, (6) retirements, (7) total, (8) periodic depreciation, (9) accumulated depreciation, and (10) net book value. In the small box extending over the first three amount columns, i.e., (5) to (7),

insert the account number covering the asset in question, and in the box over amount columns (8) and (9) place the valuation account number for the same asset, e.g., "Account #1324V."

Total column (7) will be used at the end of the accounting period to show the difference between columns (5) and (6). Likewise in the net book value column (10) will be extended at the end of the period the difference between Total column (7) and the Accumulated Depreciation column (9).

In the operation of the ledger upon the retirement of an asset, the following procedure is used: the original cost, plus additions and betterments is transferred to an account in the general ledger titled Fixed Asset Clearing account; the amount of accumulated depreciation to date, including that accrued for the current period, is transferred from the Accumulated Depreciation column (9) to the same account in the general ledger. This will be accomplished by a general journal entry debiting Reserve for Depreciation and crediting Fixed Asset Clearing account. In the Plant and Equipment Ledger debit portion of this entry will be posted to Accumulated Depreciation column (9) in red to indicate the subtraction. The two transfer entries thus effect a closing of the account by transfer to the general ledger in which record of the retirement transaction will be completed in the usual way.

The Plant and Equipment Ledger is controlled by asset and reserve accounts on the General Ledger. The total of the total columns (7) of the various subsidiary accounts will equal the Plant and Equipment account and the total of the column (9) amounts will equal its reserve account as carried on the General Ledger.

Open the following accounts in the Plant and Equipment Ledger:

PLANT AND EQUIPMENT LEDGER ACCOUNTS

1321	Land
1322	Building No. 1, Power Plant
1322V	Depreciation Reserve Building No. 1, Power Plant
1323	Building No. 2, Factory
1323V	Depreciation Reserve Building No. 2, Factory
1324	Building No. 4, Receiving and Shipping Room
1324V	Depreciation Reserve Building No. 4, Receiving and Shipping Room
1325	Building No. 3, Administration
1325V	Depreciation Reserve Building No. 3, Administration
1326	Building No. 5, Factory
1326V	Depreciation Reserve Building No. 5, Factory
1327	Machinery and Equipment, Power House
1327V	Depreciation Reserve Machinery and Equipment, Power House
1328	Machinery and Equipment, Factory
1328V	Depreciation Reserve Machinery and Equipment, Factory
1329	Machinery and Equipment, Receiving and Shipping Room
1329V	Depreciation Reserve, Machinery and Equipment, Receiving and Shipping Room
1330	Tools

1331 Delivery Equipment, Truck
1331V Depreciation Reserve Delivery Equipment, Truck
1332 Salesmen's Autos
1332V Depreciation Reserve Salesmen's Autos
1333 Salesroom Equipment
1333V Depreciation Reserve Salesroom Equipment
1334 Office Furniture and Equipment
1334V Depreciation Reserve Office Furniture and Equipment
1335 Construction, Building Rehabilitation
1336 Construction, New Factory Building

As posting media for the ledgers described above, the system of records provides for the following journals:

General Journal
Cash Receipts and Disbursements Journals
Sales and Consignment Shipments Journal
Sales Returns and Allowances Journal
Consignment Sales and Commission Journal
Expense and Income Journal
Voucher Register

The general journal will be used to record the usual types of transactions, i.e., those for the entry of which no special journals have been provided. In it the following debit and credit columns are provided—from left to right: (1) and (2) Trade Debtors; (3) and (4) Consignment Accounts Receivable; (5) and (6) Depreciation Reserve Plant and Equipment; (7) account numbers; (8) and (9) Plant and Equipment; (10) date; (11) account classification, debt and credit, and explanations; (12) ledger folio; (13) and (14) General Ledger; and (15) Consignment Shipments, credit.

The Expense and Income Journal, together with the Voucher Register, comprise the medium of original entry to the accounts of the Expense and Income Ledgers. Accordingly, this journal is provided with the following debit and credit columns: Manufacturing Expense; Selling Expense; General Administrative Expense; Financial Management Expense; date; account classification and particular; ledger folio; General Ledger; and Financial Management Income. For each pair of subsidiary ledger columns space is provided for account numbers. Transactions will be recorded in this journal just like those in the General Journal, i.e., debit and credit analysis, with a brief explanation. At the close of the period columnar summaries must be made to secure the necessary postings to control accounts just as in the general journal.

The Sales and Consignment Shipments Journal is ruled so that regular sales and shipments on consignment are entered in the one journal. Regular sales are entered in the Trade Debtors Control column and distributed to various sales accounts for the kind of goods sold. Consignment shipments are entered in Consignment Shipments

Control column and distributed to the various sales accounts for the kind of goods. At the end of the accounting period in summarizing the journal the total in Trade Debtors Control column is posted to the Trade Debtors account in the General Ledger and the total in Consignment Shipments Control column is posted to the Consignment Shipments account in the General Ledger. The latter account total represents the billed value of the shipments on consignment for the period.

It will be noted that under this system in the various sales accounts will be recorded consigned goods as well as regular sales. Since shipments of consigned goods are not sales, the various sales accounts must be adjusted at the close of the fiscal period.

Upon receipt of account sales from consignees, record will be made in the *Consignment Sales and Commission Journal.* Here as the sale is entered in its column, the consignee's commission will be entered in the proper commission column, according to kind of goods reported sold. This journal therefore serves two purposes: (1) it is the medium for transferring from the Consignment Shipments account to the Consignment Accounts Receivable account the amounts due from consignees for actual sales of merchandise; and (2) it serves also as the medium for recording the liability for commissions on such sales. The Consignment Accounts Receivable account on the General Ledger represents the amount due from consignees for actual sales made less commissions and any advances made by them.

Receipts of cash as advances against consignment shipments or as payments under account sales rendered will be credited from the Cash Receipts Journal to Consignment Accounts Receivable.

The *Voucher Register* is used for all transactions involving purchases and expenses. The use of expense control accounts necessitates the notation in each expense control column of the account number indicating the subsidiary account to be charged. See Chapter 29 of Kester, *Principles of Accounting,* for explanation of use of the voucher register. Periodically postings are made in detail to the subsidiary expense accounts in their respective ledgers and in total to the controls on the General Ledger. Items as posted should be checked.

No explanations of the use of the other journals—Cash Receipts, Cash Disbursements, and Sales Returns and Allowances—is necessary as no peculiarities are met in their operation.

In the set-up of the account classification in all journals, account numbers as well as titles must be shown. The account number will be set up parenthetically at the left-hand margin. A typical entry in the general journal would appear as follows:

(975)	Fixed Asset Clearing Account.....	$2,000	
(1328)	Machinery and Equipment—Factory.....		$2,000
	To transfer cost of discarded machine to clearing account for adjustment		

Assignment 2

John Brown, James Kirby, and William Jones, who have accumulated a capital by conservative and cautious investment, conclude that the time is favorable for purchasing a going concern at the panic prices now prevailing.

After thorough investigation of available businesses they decide to purchase some of the assets of Henry Williams, Inc., manufacturers of fine living room furniture. Williams' business has been on the decline during the past 3 years to a point where the company has to sell or go into insolvency. Although the goodwill of the company is of little or no value, the working assets are in good condition and offer a very attractive investment at the price asked.

The E-Z Chair Corporation is therefore organized January 2, 19–, under the laws of the state of Delaware, with a charter which authorizes the corporation to transact a general business of all kinds in trading and manufacturing, as principals or as agents to acquire and trade in real estate, patents, trade-marks, licenses and the like and to act as promotion and financial agents. The authorized capital stock is $250,000 divided into 2,500 shares of common stock of $100 par value each.

All of the authorized capital stock is subscribed for by the organizers as follows:

John Brown	1,000 shares
James Kirby	1,000 shares
William Jones	500 shares

(Make the necessary opening entry with full explanations in the General Journal. Remember the formal explanation reciting the incorporation of the company, etc., precedes the first entry.)

On January 3, 19–, the first meeting of the subscribers of the E-Z Chair Corporation is held and after the adoption of a set of by-laws and the election of the board of directors, authorization is granted to take over certain assets of Henry Williams, Inc., for $195,000 cash. All subscribers pay their subscriptions in full on January 4, and on the same day the corporation takes over and pays for the assets of Henry Williams, Inc., subject to a mortgage on the plant of $45,000 bearing interest at 6% payable annually on September 1 of each year. Accrued interest on the above mortgage for 125 days is to be taken into account. (Enter this disbursement as voucher #1. Be careful to make a full record of the purchase in the General Journal by use of Henry Williams, Inc., account. For interest use a 360-day year.)

At a meeting of the board of directors a resolution is adopted authorizing the engagement of a reputable appraisal company for purposes of determining the reproduction cost and the depreciated values of the plant and equipment and the market value of the inventory so that each of the various items taken over can be properly set up on the books.

The firm of Price, Ross & Mitchell is engaged to open the books

after installing a system of accounts that will meet the needs of the business. The system described in the preceding assignment is the one divised by the accountants.

The directors authorize the payment of $550 to John Brown for organization expenses incurred as follows: legal costs $200; capital stock issue tax, both federal and state, $150; stock certificate books and ledger $50; and sundry expenditures $150. (This is voucher #2 and also the second entry in the Cash Disbursements Journal.)

An inspection of the plant showed that some repairs would be necessary prior to operation. A contract was therefore entered into with the construction firm of Spencer, Kellog & Co. for the sum of $5,000. Work was to begin at once. (In recording the contract and transactions under it, no entries will be made until completion of transactions or upon payment to the contractor.)

The board of directors complete negotiations with Malvin Medison, inventor of a novel easy chair, under an agreement which provides that the E-Z Chair Corporation will have the sole right to manufacture and sell his patented chair and will pay him royalties based on the number of chairs manufactured and sold. The corporation is to deposit $2,000 with Medison which will apply against royalties as they accrue. Settlements are to be made annually. Check was made and given to Medison for that amount. (This is voucher #3, the charge being to account #120, Prepayment of Royalties—Malvin Medison.)

As provided in its charter the corporation will manufacture and trade. Its by-laws specifically recite that it will manufacture and sell the patented easy chair and will buy and sell upholstered furniture. The following transactions are to be entered as indicated:

January 4. Purchased from Very Good Printer, letterheads, invoices, etc., for $450 terms n/30. (This transaction will be voucher #4.) Deposited $250 with Union Gas and Electric Co. required by them as security for meters and as guaranty for payment of bills. Advanced $1,000 to Spencer, Kellog & Co. on building contract, which amount is to be charged to Construction—Building Rehabilitation. Drew a check for $500 and deposited it in the City National Bank authorizing the bank to honor checks signed by the head bookkeeper for office petty cash purposes. (The office petty cash is kept as an imprest fund. Checks will be drawn by the authorized person for petty cash expenditures and when the bank account is in need of reimbursement a check will be drawn on the Furniture Guild National Bank to bring the account up to its original amount. No entries are made on the books for the individual petty cash expenditures but as a check is drawn to reimburse the bank account a voucher is made out and entered in the voucher register summarizing all of the expenditures as to accounts to be charged. The check to open the petty cash account will be vouchered as a charge to City National Bank, Petty Cash, Office.)

Drew a check for $400 and placed cash in a petty cash box under the custody of the factory superintendent to be used for petty cash purposes. (The imprest system of handling petty cash is also used for this fund.)

In order to conserve the student's time, weekly summaries of the various journals will be given from now until the end of the month. The weekly summary for the voucher register will be given in two parts: Part (A) covering all vouchers whose payment is effected during the month, and Part (B) including all transactions remaining unpaid at the end of the month. The number of lines necessary for the record in the voucher register will be indicated for each summary.

All sales will be charged to Sundry Customers. This eliminates the need for an Account Receivable subsidiary ledger. The only individual customer's accounts to be kept are those with consignment customers, which will be carried in the Consignment Ledger. As previously explained, postings to these accounts come from the Sales and Consignment Shipments Journal, Consignment Sales and Commission Journal, the General Journal, and the Cash Receipts Journal.

January 7. Voucher Register: The summary of transactions for the week follows: (Allow 8 lines for the record.)

(A) Purchases which will be paid during month are: upholstered furniture, $57,260; raw material, $43,510.26; in-freight on upholstered furniture, $744.50; in-freight on raw material, $1,046.95; direct labor, $230.63; receiving and shipping room expense, $27.45; light, heat, and power, $1,500; factory supplies, $4,374; sundry factory expense, $96; insurance on factory, $7,941.67; advertising, $900; designs and plates, $1,314.50; insurance, chargeable as a selling expense, $500; sundry selling expenses, $34.75; telephone and telegraph, $185.20; stationery and printing, $45; sundry office expense, $112.46; insurance, chargeable to general administrative expense, $518.33; salesroom furniture, $3,500; repairs for machinery, $60 (charge this to Reserve for Repairs and Maintenance); advances to salesmen, $800; and deposit on bid, $250.

(B) Purchases which will not be paid during the month are: advertising, $250; machinery for factory, $6,370 (the machine was invoiced at $6,500, less discount of 2/10, n/30. Estimated life of machine is 12½ years); repairs for machinery, $1,750; machinery for shipping room, $735; raw material, $6,500; office equipment, $2,450; and salesroom furnishings, $2,500.

Sales and Consignment Shipments Journal: Sales to sundry customers, upholstered furniture, $29,050.

Cash Receipts Journal: No entries for the week.

Cash Disbursements: Paid sundry creditors $7,340.44, no purchase discount being received. [Do not make any notation in the "Date Paid" column of the voucher register until the end of the month.

Then mark as paid all vouchers under group (A) of the several weekly summaries.]

Expense and Income Journal: Jan. 5, in settlement of voucher entered on January 4 for $10,000 subject to a cash discount of 3/10, n/30, we anticipated payment by giving our 6%, 60-day note for $4,685.45 and $5,000 cash. (The cash discount is $300; the saving by anticipation is $14.55, this latter being credited to Interest Income. The cash disbursement entry and the voucher for it already have been reflected in their respective summaries. Enter the remainder of the transaction in the expense and income journal. The vouchers and notes payable items will be entered in the General Ledger columns. The two detailed income accounts will be posted from the corresponding entry in the Financial Management Income columns, the total of which will, upon summary, reach the general ledger control account.)

January 14. Voucher Register: The summary of transactions for the week follows: (Allow 5 lines for the record.)

(A) Purchases which will be paid during the month are: upholstered furniture, $11,475; raw materials, $8,045.54; in-freight on upholstered furniture, $249.50; in-freight on raw material, $1,001.80; direct labor, $3,625; receiving and shipping room expense, $572; indirect labor, $340; light, heat, and power, $14; factory supplies, $41; sundry factory expenses, $185.40; advertising $1,920; freight-out on upholstered furniture, $490; sundry selling expenses, $25; officers' salaries, $900; office salaries, $420; credit and collection expenses $250; tools, $165.26; delivery truck $1,542.50; cars for salesmen, $1,504.70; and advances to salesmen, $1,550.

(B) Purchases which will not be paid during the month are: raw material, $2,332; engraving, $63.50.

We received a credit memo for $13.50 account of overcharge on designs and plate invoice vouchered under Part (A) January 7. This memo was received after the original bill had been entered. (When recording credit memos in the voucher register use red ink, or encircle the amounts, to distinguish them from regular items in the columns affected.)

Sales and Consignment Shipments Journal: Sales to sundry customers were: upholstered furniture, $63,157.50; E-Z chairs, $34,620. On January 13 we shipped to United Furniture Chain Stores, Inc., on consignment 15 E-Z chairs billed at $30 each to be used for display purposes.

Sales Returns and Allowances Journal: Sales returns from sundry customers were: upholstered furniture, $890; E-Z chairs, $427.50.

Cash Receipts Journal: January 11, we discounted our $50,000, 30-day note, at 4½% with the Furniture Guild National Bank.

Cash Disbursements Journal: Payments were: sundry creditors, $36,451.45, less purchase discount $529.49.

January 21. Voucher Register: The summary of transactions for the week follows: (Allow 6 lines for the record.)

(A) Purchases which will be paid during the month are: upholstered furniture, $26,330; raw material, $2,418.30; in-freight on upholstered furniture, $269.80; cartage on raw material, $585.30; direct labor, $6,030.25; shipping room expense, $580.90; indirect labor, $420; light, heat, and power, $218.25; sundry factory expense, $38.40; delivery expense, $101.50; salesmen's auto expense, $63.60; advertising, $50; freight-out on E-Z chairs, $198.40; officers' salaries, $900; office salaries, $441; sundry office expense, $22.50; tools, $4.25; advances to contractor for building rehabilitation, $2,500; deposits on bids, $800; organization expense, $500; and advances to salesmen, $2,300.

(B) Purchases which will not be paid during the month are: raw material, $10,965.86; factory supplies, $748.20; delivery expense, $237; salesmen's auto expense, $147.20.

A credit memo for $285 was received from a sundry creditor on account of a return of certain raw materials applying to one of the invoices included in the $10,965.86 just above.

Sales and Consignment Shipments Journal: Sales to Sundry Customers: upholstered furniture, $11,585.80; E-Z chairs, $30,066.50.

Cash Receipts Journal: Collected from sundry customers $66,722.04, less sales discount of $1,334.44.

Cash Disbursements Journal: Paid sundry creditors $102,641.34, less purchase discount of $2,603.75.

General Journal: January 16 gave our 6%, 30-day note for $2,000 in payment of voucher recorded on January 5. (This item is included in totals previously given. The charge is to Vouchers Payable.) Received sundry customer's 6%, 3-months note dated January 21 in payment of invoice of January 11, of $1,080, less discount of $21.60. (Note that the Expense and Income Journal is also involved.)

Assignment 3

The following transactions are to be recorded as indicated:

January 31. Voucher Register: A summary of transactions for the week follows: (Allow 10 lines for the record.)

(A) Purchases which will be paid during month are: upholstered furniture, $22,000; raw materials, $32; freight-in on raw materials, $231.05; direct labor, $6,620; receiving room expense, $608.94; indirect labor, $420; light, heat, and power, $217.20; factory supplies, $141.89; sundry factory expense, $206.56; traveling expense, $150; delivery expense, $97.24; salesmen's auto expense, $12.50; advertising, $75.20; freight-out, upholstered furniture, $221.20; freight-out, E-Z chairs,

$92.20; officers' salaries, $900; office salaries, $442; stationery and printing, $159.40; sundry office expense, $111.70; building rehabilitation per contract, $1,000; advances to salesmen, $2,150; loan to an officer, $750. (This loan was authorized by the company's directors and is secured by 10 shares of the company's stock.)

(B) Purchases which will not be paid during the month are: upholstered furniture, $24,720; advertising, $370; engravings, $85; freight-out on upholstered furniture, $21.25; freight-out on E-Z chairs, $137.40; raw materials, $1,225.40; in-freight on raw material, $34.50; and vouchers payable, $8,950. [This latter item arises because of partial payments made on two vouchers included in section (A) above. The new voucher—$8,950—represents the balances remaining unpaid in the original vouchers which are now canceled through the issuance of new voucher for a like amount.]

Returned upholstered furniture of $784.20 to sundry creditors. [Applies to an invoice included in the $24,720 entered in Part (B), January 31.]

Sales and Consignment Shipments Journal: Sales to sundry customers were: upholstered furniture, $48,858.47; E-Z chairs, $26,020.

January 22 we sent on consignment to Haskens and Dells Decorative Corporation upholstered furniture invoiced at $12,125, under 10% sales commission agreement. Made a consignment shipment of E-Z chairs, $8,350, to St. Louis Furniture Mart, commission on sales to be 10%.

January 26 we shipped a consignment of upholstered furniture, under a 10% sales commission agreement, to Chicago Furniture Sales Corporation at invoice price of $8,500.

January 30 we shipped on consignment to San Francisco Furniture Exchange $3,750, upholstered furniture, and $1,600, E-Z chairs, to be sold on 10% commission.

January 30 we shipped on consignment, $3,740 E-Z chairs to Haskens and Dells Decorative Corporation, per their request, under a 10% sales commission agreement.

Sales Returns and Allowances Journal: Sundry customers returned $684.75 of upholstered furniture and $1,295 of E-Z chairs.

Consignment Sales and Commission Journal: January 28, Haskens and Dells Decorative Corporation reports sales of upholstered furniture, $8,935, and remits check less 10% commission. Check will be recorded in cash receipts book as noted below. Review instructions explaining method of recording consignment transaction on page 135.

January 30, The Chicago Furniture Sales Corporation reports sales of upholstered furniture, $6,475. (Make the proper entries, including commission at 10% credited to their account on Consignment Ledger.)

Cash Receipts Journal: January 28, received check for $8,041.50, as noted above, from Haskens and Dells Decorative Corporation, as per their account sales rendered today.

January 29, received check for $2,500 from Chicago Furniture Sales Corporation as an advance on goods we shipped on consignment.

January 30, discounted at 4½% at Furniture Guild National Bank, the following notes receivable: #1—6%, 3-months note of $1,058.40, dated January 21; #2, 30-day note of $6,165.93, dated January 23. (Make a separate entry for each note. See Gen. Journal below.)

Received check for $2,425 from Haskens and Dells Decorative Corporation as an advance against consignment shipped to them this date.

Received from sundry customers, $78,150.31, less $1,218.92, sales discount.

Cash Disbursements Journal: Paid sundry creditors $78,283.20 less purchase discount of $808.97.

General Journal: Received from a sundry customer 30-day note in settlement of his open account of $6,362.50, less a sales discount of $227.25. The note is not interest bearing but has 6% interest included in its face amount. (Note that Exp. and Inc. Jour. is also involved.)

Sundry Transactions: In answer to the accountant's request for the status of petty cash funds, the following report with receipted bills attached, was received from office and factory:

Office petty cash disbursements totaled $365.40, distributed as follows: telegrams chargeable to selling expenses, $17.40; advertising, $55; expressage on E-Z chairs to customer, $5.30; traveling expenses, $25; sundry selling expenses, $85.50; stationery, $63.50; and sundry office expense, $113.70.

Factory petty cash disbursements totaled $286.90, distributed as follows: direct labor, $142.30; indirect labor, $25.60; tools, $15.50; factory supplies, $48.50; and sundry factory expenses, $55. Vouchers #95 and #96 were prepared and checks #81 and #82 drawn to reimburse the respective funds. (Allow 5 and 3 lines respectively for these transactions in the voucher register.)

The replacement parts purchased during the week ending January 7 for $1,750 and charged against the Reserve for Repairs and Maintenance were attached to a unit of factory machinery on January 29. It has been decided to capitalize this expenditure. Make the necessary journal entries to effect the change.

Through an oversight on the part of the bookkeeper a voucher prepared during the week ending January 7, covering machinery billed at $6,500, subject to a cash discount of 2/10, n/30 and vouchered net at $6,370, was not paid. Another voucher will now have to be prepared for the amount of the discount and charged to the factory machinery account.

Prepare a voucher for salesmen's commissions accrued for January. These commissions of 5% of net sales amount to $7,553.85 for upholstered furniture and $4,449.20 for E-Z chairs. (Check in payment

will be issued later.) Prepare a voucher for salesmen's traveling expenses for the month. The monthly travel expense statements turned in by the salesmen show $1,975 actually spent for travel to date.

On January 31 the International Appraisal Company submitted the following report on the valuation of the Henry Williams' properties:

Description of Asset	Reprod. Cost New	Accrued Depr.	Net Asset Value	Comp. Depr. Rate
Power Plant Machinery....	$ 19,200.00	$ 4,320.00	$ 14,880.00	10%
Receiving and Shipping Room Machinery	16,200.00	6,706.43	9,493.57	8%
Factory Machinery	120,200.00	37,380.71	82,819.29	8%
Office Furniture and Equipment	9,750.00	3,967.86	5,782.14	14%
Power Plant Building.....	40,000.00	10,000.00	30,000.00	4%
Receiving and Shipping Building	30,000.00	6,600.00	23,400.00	2½%
Factory Building	180,000.00	59,400.00	120,600.00	3%
Office and Sales Building...	50,000.00	14,000.00	36,000.00	2%
Land	50,000.00		50,000.00	

Inventories taken over from Henry Williams, Inc., were: upholstered furniture, $10,000, and raw material, $5,000.

The report was discussed at a meeting of the board of directors who believed that the appraised values shown by the report should form the basis for their operations. The actual cost price was the result of a "distress" sale by the vendor. Operating costs based on such a price would, in a competitive market, be misleading. Accordingly, the board authorized their chief accountant to bring the values of the appraisal report onto the books of the corporation as of January 4, 19–, the date of purchase. (In setting up the appraisal report in the general journal, the accounts affected in the Plant and Equipment ledger will be shown in detail in the account classification column and their amounts will be extended either into the Plant and Equipment columns or into the Depreciation Reserve, Plant and Equipment columns. The two merchandise purchases accounts affected will also be included in this entry, their amounts being entered in the General Ledger columns. The difference between the appraised and cost values will be carried to Re-appraisal Surplus account. The entry to the general ledger control account, Plant and Equipment, will be made when the journal is summarized for posting. Handle this whole transaction carefully.)

Assignment 4

Post all entries from the various journals.

Summarize the various journals and post the summary entries.

On standard journal paper, set up a trial balance of the general ledger. Follow this with proofs—lists of balances—of the various subsidiary ledgers. In summarizing the Expense ledgers, the "total"

line should be drawn across the page, using the "Total" column as a guide, so that all column totals will appear on the same line, just as in the Voucher Register.

The postings to accounts in the Plant and Equipment ledger are to be extended into the total column only at the end of each month. In taking off a list of accounts for proof against the general ledger control accounts, use three columns headed as follows: Total Cost, Accumulated Depreciation, and Net Book Value. The total of the amounts entered in the first column should agree with the balance in the Plant and Equipment control account, and that of the second column with the balance in the Depreciation Reserve, Plant and Equipment account on the General Ledger. The third column is for memorandum use only.

Assignment 5

February 1. Spencer, Kellog & Co. presented their final bill of $1,000 as the balance due for repair work on plant. The total cost of such work was $5,500 of which $500 was for extra work found necessary and agreed to. The bill was vouchered and paid. According to an analysis of the contractor's bill, the repairs were made as follows: power plant building, #1, $500; factory building, #2, $1,000; office and sales building, #3, $1,800; power plant machinery and equipment, $450; factory machinery and equipment, $1,750. The directors authorize the capitalization of these repairs and the accountant is directed to transfer the expenditures to the proper accounts under the date of January 4, 19–.

February 3. Prepare a check for payment of salesmen's commissions for month of January, according to data given on January 31. Check is issued for amount of voucher less advances to salesmen applicable to these commissions. Analysis of the advances account shows that $4,450 was for commissions and $2,350 was for the traveling expenses. Make the necessary journal entries to show full payment of the vouchers covering salesmen's commissions and travel expenses for January. At this same time transfer, by journal entry, the accrued mortgage interest to the Mortgage Interest account.

Received bill from the International Appraisal Co. for $700 covering their services. The bill was vouchered and check issued. Charge to "Organization Expense."

February 15. Units #4 and #9 of factory machinery and equipment, with appraised reproduction costs of $15,000 and $16,000 respectively and accrued depreciation values as of January 4 of $6,000 and $7,800 respectively, were scrapped and sold to Manufacturers Supply Co. for $5,125 and $7,845 respectively. At the same time we purchased from them various replacement parts for machinery repair purposes, amounting to $2,395. The balance was received in cash. (To

record the above transactions, the depreciation of each asset for the current period is to be recorded in the regular way, i.e., as a charge to depreciation expense and a credit to the corresponding depreciation reserve.

(Entries for this transaction must be made both in the general journal and in the expense and income journal. In the general journal the debit to Depreciation Expense will be entered in the General Ledger column and checked, not being posted. The credit to the Depreciation Reserve will be entered in its own column and posted. To secure the charge to the proper Depreciation Expense account in the subsidiary expense ledger, the same debit and credit entry must be made in the expense and income journal where the debit to Depreciation will be entered in the Manufacturing Expense column, from which it will be posted to the Depreciation account in the manufacturing expense ledger. It will reach the Manufacturing Expense Ledger Control on the general ledger, at the end of the period, by summary of the Manufacturing Expense column of the expense and income journal. In this latter journal the credit to the Depreciation Reserve will be checked and not posted. Depreciation will be computed for 1½ months on the appraisal value, it being common practice to count the time to the nearest half-month. Thus, if the date of purchase of an asset is nearer to the first of the month than to the middle, depreciation will be computed from the first, otherwise from the middle of the month.

(After this has been done, the reproduction cost value and the amount in the Depreciation Reserve account applicable thereto are to be transferred from the Plant and Equipment Ledger account to the Fixed Asset Clearing account in the General Ledger. Through this account all other adjustments—e.g., the sales price, allowances, etc.—are to be made. The balance is then transferred to the account, Profit and Loss on Disposal of Fixed Asset. The Fixed Asset Clearing account should be ruled off after the completion of each sale. The cost of repair parts is charged to Reserve for Repairs and Maintenance. The sale of machinery and purchase of repair parts will be recorded in general journal and cash receipts journal by the use of the vendee-vendor account, Manufacturers Supply Co., which will be set up as Other Accounts Receivable and recorded in the General Ledger under that title. In recording the sale of the machinery there must be taken into consideration the re-appraisal surplus which belongs to the asset sold. The amount applicable to the discarded property should be transferred out of Re-appraisal Surplus account to Re-appraisal Surplus-Realized account, the unrealized appreciation having now become realized upon sale of the asset, i.e., other assets of currently established value have taken the place of the values written up by re-appraisal, either by their receipt on this exchange or by charge against current earned profit for any deficiency on exchange.

(The portion of the re-appraisal surplus applying to a particular unit is calculated as follows: Compute the ratio of the total cost—here, $240,937.50—of all assets purchased to their net appraised value—here, $387,975. Then multiply by this ratio—here 62.1%—the net appraised value of the sold assets on date of appraisal. The product subtracted from the net appraised value of the asset sold will be the re-appraisal surplus pertaining to that asset. It is this figure which is transferred to the Re-appraisal Surplus-Realized account.

(In connection with the recording of the above transaction, it is desirable that the taxable gain or loss on the sale be computed while all data are easily available. The general rule for computing gains or losses on sale of assets is based on cost less the accumulated depreciation to date of sale. The following method should be used: Multiply the gross reproduction cost value and the accrued depreciation at date of appraisal by the cost multiplier derived above. This gives the actual gross cost of the asset and the accrued depreciation based on this cost. For the period since date of appraisal determine the depreciation charges based on this cost. From the actual gross cost, as computed above, subtract the total depreciation to date of sale, as computed above. The remainder will be the book value of the asset. This amount compared with the sales price gives the profit or loss on the sale. This computation should be made a part of the explanatory data in support of the journal entry recording the sale.)

February 20. Haskens and Dells Decorative Corporation returned upholstered furniture of the shipment of January 22, billed at $3,750, which with the cash payment received on January 28, effects settlement in full for the January 22 shipment. (It will be noted that the sales plus the returns are $560 in excess of the invoiced price. An adjustment of $560 in the Sales-Upholstered Furniture and Consignment Shipments accounts is necessary, and should be recorded through the Sales and Consignment Shipments journal. Record the return through the General Journal and charge to Sales-Upholstered Furniture.)

February 22. We received notice from the bank that sundry customer's note #2 for $6,165.93, discounted on January 30, had been protested on account of non-payment and charged to our account plus protest fee of $2.50. (Charge sundry customers account with sales discount allowed on January 23 transaction.)

February 27. The Chicago Furniture Sales Corporation reports that it has sold for $1,675 the balance of consigned upholstered furniture sent it on January 26. It remits check in full settlement of the account, less commissions.

March 25. The St. Louis Furniture Mart reports the sale of all consigned merchandise at the billed price and sends us its 6%, 60-day note for the net amount due.

June 30. The E-Z Chair Corporation has been very successful in marketing its patented chair and indications of greater sales possibilities are very encouraging. To promote the necessary advertising and production, it is apparent that outside capital will be needed. Accordingly the charter is amended to allow the corporation to make the following stock issues:

10,000 shares 7% cumulative preferred capital stock of par value $25 each.
50,000 shares of class A common stock no par value.
50,000 shares of class B common stock no par value.

Of the preferred capital stock, 5,000 shares are sold at par to various customers of the corporation. 5,000 shares of class A common stock are sold at $15 per share. Cash was received for all subscriptions. By resolution of the board of directors the accountant is instructed to allocate $5 per share to Capital Stock account and $10 to Paid-in Surplus of the capital raised through sale of the class A stock.

The new class B common stock is exchanged for the old common stock on the basis of 20 new shares for each old share.

Relative to the common stocks the charter provides that only class B common stock shall have voting privilege; that class A common stock shall have the right to a $2 per share dividend before any dividends can be paid to class B common stockholders; and that after $2 has been paid on class B common stock, both classes shall participate equally in additional distributions. It is also provided that if at any time dividends remain unpaid on class A common stock for a period of two years, such stock shall have voting privilege on same basis with class B shares.

Expenses incurred and paid in connection with the flotation of the new issues amount to $5,000. This is to be charged to Organization Expense. (Record all transactions as of June 30.)

As of June 30, 19–, the mortgage on the building, with 10 months accrued interest to date, was paid off. A note issue secured by the building was arranged with the bankers to provide funds for the purchase of additional factory facilities.

The bankers agreed to purchase, at 95, $200,000 of 5-year 6% first mortgage notes dated June 30. Interest is payable December 31 and June 30 of each year.

Due to delay in getting the notes ready for issue, the board of directors, upon signing the contract with the bankers authorized entry of the transaction as a charge to Bankers' account and a credit to Liability under Agreement to Issue Notes. (Make the bond discount a part of this entry.)

The note indenture provides that there shall be paid out of profits to a Sinking Fund Trustee, semi-annually on interest dates, a sum of money equal to one-tenth of the face of the note issue decreased by the

net income of the fund for that period. The trustee is vested with authority to invest the fund instalments in purchase of the notes, if any are available, and if not in any gilt-edge securities of Grade AAA. Any of the company's notes purchased by the trustee are to be kept alive until maturity of the issue.

July 15. New policies to cover possible losses by fire to merchandise were taken out through Paston Insurance Agency. The premium of $825 for one year was paid. (Charge to Selling expenses.)

The bankers made payment at the agreed price upon delivery of the notes, no account being taken of interest from June 30.

In connection with the note issue various expenditures were legal fees, $1,000; printing and stationery, $250; and incidental expenses, $300. These were paid at this time. (Charge expenses to Bond Discount and Expense account.)

Assignment 6

August 1. A plant suitable to the company's needs was purchased for $100,000 cash, of which $40,000 was for the land and $60,000 for the building, the latter to be known as Factory Building #5. The estimated life of the building is 40 years.

Before manufacturing operations had begun in the new plant, it was discovered that one of the additions to the building which had been built by the former owners was not suitable for the company's operations. The addition was therefore demolished by the General Construction Co. at a cost of $1,000. The bill was received and paid. The portion of the purchase price applicable to the demolished structure was estimated as $8,500.

The company contracted with various sub-contractors to construct a larger addition on the site of the demolished building. Contracts were let for $40,000 under an agreement that upon completion of specific portions, as certified by the supervising architect, 80% of the contract price of those parts would be paid, the balance payable when the building was fully accepted. (Charge the value of the building and cost of demolishing to Costs of Demolition—Buildings account, which is to be charged to Profit and Loss as an extraordinary item. No entry is necessary to record the contract.)

September 1. A fire occurred in the factory with the following results: (1) a total loss of unit #5 of factory machinery and equipment, the reproduction cost of which was $12,000 with accrued depreciation of $4,000 on date of appraisal, annual depreciation rate being 8%; (2) damages to factory building #2, necessitating repairs by Spencer, Kellog & Co. at a cost of $6,300; and (3) a loss of raw materials estimated at $23,500. The insurance company's adjuster, after inspection, agreed to pay the following amounts in settlement of our claim: (1) machinery, $6,500; (2) necessary building repairs per contractor's

invoice, $6,300, the amount being paid direct to the contractor by the insurance company; (3) raw materials, $25,000; and (4) use and occupancy, $5,000. A check for the amount was received on September 10.

The machinery scrap was sold for $15. Unexpired premiums lost through decrease of insurance in force, due to fire loss settlement, amounted to $109.40. (Only the insurance account in the Manufacturing Expense Ledger is affected by this adjustment. Adjust the Reappraisal Surplus account and calculate the gain or loss on machinery for income tax purposes as in the February 15 transaction.)

September 15. The factory machinery destroyed by fire was replaced by a purchase from General Machine Co. for $7,200, terms 2/10, n/30. (Entry in Voucher Register was made at the net amount.) Freight-in of $22 was paid to New York Central R. R. The machine was installed by our own men. The estimated life of the machine is 12½ years. Through oversight the invoice was not paid until November 15 thus losing the discount. (Make the necessary adjustment and draw the check in payment.)

December 1. At a meeting of the board of directors a resolution was adopted providing that 10,000 shares of no-par common stock class A be reserved for management subscription at a price of $15 per share, with the offer remaining open for a 2-year period. It was also provided that 5,000 shares of the same class of stock be set aside for employees' subscription on the instalment plan at the same price.

December 5. Employees subscribed for 1,500 shares, making a down payment of 5% cash and agreeing to make 5% instalment payments monthly, by deduction from their pay envelopes, on the first payroll period of each month until subscription is paid in full.

December 31. Contractors were paid $20,000 to cover contract agreement for completion of a specific portion of the building under construction. (Charge this to Accounts Payable—Building Contracts. Be sure also to record the completed portion of the building. See page 152 for contract agreement.)

The other transactions for the eleven months are given by summaries for the various journals.

December 31. VOUCHER REGISTER: The summary of transactions follows: (Allow 10 lines for the record.)

(A) Purchases which were paid by the end of the year: upholstered furniture, $607,060.09; raw materials, $470,600.40; in-freight on upholstered furniture, $23,583.34; in-freight on raw materials, $20,782.27; direct labor, $640,717.59; indirect labor, $47,451.78; receiving and shipping room expense, $15,660.41; light, heat, and power, $28,145.25; factory supplies, $43,500.98; sundry factory expense, $15,012.43; delivery expense—truck, $3,390.32; salesmen's auto expense, $1,229.19;

freight on sales of upholstered furniture, $3,637.80 and on E-Z chairs, $6,678.45; advertising, $77,361.05; sundry selling expense, $9,316.14; designs, plates, and engravings, $2,113.40; traveling expenses, $31,730.90; telephone and telegraph (general administration), $6,351.47; stationery and printing, $8,050.85; sundry office expense, $9,067.33; office salaries, $24,724.95; officers' salaries, $43,650; taxes, $7,950 (charge to account in administrative group); collection expense, $18,342.70; interest expense, $1,855.60; interest on mortgage notes, $6,000; tools, $1,502.50; advances to salesmen, $98,109; reserve for repairs and maintenance, $1,850; notes payable, $200,763.20; notes receivable discounted and charged back to sundry customers on account of nonpayment, the face amount being $8,375 and protest fees, $15; prepayment on purchases, $10,000; upholstered furniture returned to makers, $14,275.50; raw materials returned, $5,346.50; and defective tools returned, $590.

(B) Purchases which will not be paid during the current year: upholstered furniture, $60,002.80; raw material, $34,074; factory supplies, $332; sundry factory expense, $3,700; designs and engravings, $3,200; stationery and printing, $2,200; and tools, $2,190. [At this point mark all vouchers paid except the one representing part (B) of this summary.]

Cash Receipts Journal: Interest Income, $1,575.50; notes payable discounted, $95,000 on which prepaid interest deducted by bank was $1,040.48; notes receivable discounted, $76,275 less discount of $590.20; notes receivable paid by makers, $10,000; consignment accounts receivable, $289,790; sundry customers—trade, $1,696,216.93, less discount allowed of $34,970.75; return of deposits made on unsuccessful bids, $800.

Cash Disbursements Journal: Vouchers payable $2,417,759.50 less purchase discount of $38,279.39.

Sales and Consignment Shipments Journal: Sales upholstered furniture, $852,143.33; sales E-Z chairs, $1,700,591. Of these amounts the portion chargeable to consignment customers is, $341,305, and to sundry trade customers, $2,211,429.33. Of the former amount, $113,105 was for upholstered furniture and $228,200 for E-Z chairs.

Sales Returns and Allowances Journal: Regular sundry customers returned upholstered furniture $59,336.57; E-Z chairs, $90,738.93.

Consignment Sales and Commission Journal: Consignment sales reported by sundry consignment customers, $332,660; commissions on upholstered furniture, $13,701; commissions on E-Z chairs, $19,565.

General Journal: Notes receivable, $86,275 for open accounts of trade debtors of same amount; notes receivable discounted paid by makers, $46,258.42; accounts receivable proven bad and written off

during year, $8,198. [Clear Notes Receivable and Notes Receivable Discounted accounts of protested notes referred to in the December 31, voucher summary, Part (A).]

Expense and Income Journal: Notes Payable, $127,385, of which, however, $674 represents prepaid interest, these notes being issued in payment of vouchers payable.

Assignment 7

Post all transactions for the 11 months.

Summarize all journals and post the summary journal entries.

Prepare a trial balance of the general ledger and take a proof of the various subsidiary ledger control accounts. (In summarizing the subsidiary expense ledgers, follow the instructions given on January 31. On the first line below the last entry in the total column, set up the net totals of each account. On the next line show the totals for the year, i.e., the sum of the January 31 totals and those for the 11 months. The accumulated sum in the total column should agree with the balance in the control account on the general ledger.)

Set up the proofs of subsidiary ledgers on ordinary ruled paper or journal paper and retain for submission with your work sheet.

List the trial balance of the general ledger on a 12-column work sheet and head up the columns as follows: Trial Balance; Adjustments: Manufacturing; Cost of Sales; Profit and Loss; and Balance Sheet. Instead of the control account balances for expenses, set up on the work sheet all of the accounts in the respective subsidiary expense ledgers, even though no amounts have yet been entered in them. (If an 18-column work sheet is available, its use will simplify the accumulation of the various totals needed for the formal statements. Head up the columns as follows: Trial Balance; Adjustments; Manufacturing; Cost of Sales—E-Z Chairs; Cost of Sales—Upholstered Furniture; then one column each for Selling, General Administrative, Financial Management Expenses and for Financial Management Income; and finally two each for Profit and Loss and Balance Sheet.)

Assignment 8

On columnar analysis paper with the columns carrying the usual headings for general and expense and income journals, prepare a rough draft of the adjusting entries based on the following data:

Inventories

Raw Materials	$53,311.77	Upholstered Furn. on hand	$116,812.77
Goods in Process.....	78,421.76		
Finished E-Z Chairs....	82,846.75	Upholstered Furn. in transit	13,375.00
E-Z Chairs out on Consignment	10,085.00	Upholstered Furn. with consignees	3,615.00

PREPAID EXPENSES

Factory supplies	$ 2,642.17	Taxes	$3,250.00
Coal on hand	2,350.00	Insurance:	
Tools inventory	2,548.00	Factory	675.00
Advertising	11,575.00	Selling	285.00
Stationery and printing	750.00	General	18.33
Interest expense	250.00	Designs, Plates, etc.	
			Defer one-half the cost

(These transactions, affecting general and subsidiary ledgers, must be handled carefully. Prepaid Expenses will be entered only in the Expense and Income Journal. The charge will be to Prepaid Expenses, the amount being entered in the General Ledger column and posted. The credits will be to the detailed expense accounts, the amounts being extended into the various subsidiary ledger columns affected. Adjustment of all other accrued and deferred items will be handled similarly. When all these items have been posted, new totals for the accounts will be set up. Underneath these new net totals double rules will be drawn.)

ACCRUED EXPENSES

Compensation Insurance (factory)	$ 750.00	Receiving and Shipping Room Salaries	$ 112.02
Direct Labor	4,275.00	Royalties	64,489.00
Indirect Labor	1,100.00	Taxes	220.83
Light, Heat, and Power	85.50	Telephone and Telegraph	378.21
Delivery Salaries	33.25	Salesmen's Commissions E-Z Chairs	69,082.60
Officers' Salaries	450.00	Salesmen's Commissions Upholstered Furniture	33,985.09
Office Salaries	325.00		

In analyzing the Salesmen's Advances account, it is found that $91,500 was for commissions and $5,750 for traveling expenses. Reports from salesmen indicate that all travel expense balances have been used up. Transfer the latter amount to Traveling Expenses account in the Selling Expense Ledger. Apply the advances for commissions as a deduction from the Accrued Expenses on the balance sheet. Any balances in the Salesmen's Advances account are to be classed as a prepaid expense on the balance sheet.

Accrued interest on notes receivable amounts to $165.

The cash realizable value of inventories, due to style changes, is estimated to be $17,500 less than the inventory values shown above. Make the necessary entry to provide for this anticipated loss.

The board of directors desires to have a uniform annual charge for repairs and maintenance. It is estimated that the average yearly expense will approximate $13,000 in order to maintain the machinery in accordance with depreciation provisions. The charge is distributed as follows: 80% to manufacturing; 10% each to selling and general administrative expense. Make the necessary entry.

It was discovered that the labor and materials used in the installation of the factory machinery, acquired on September 15, was charged to the regular operating expense accounts instead of to the asset account. The distribution of labor and materials was then made as follows: direct labor $75.50; indirect labor $25; and sundry factory supplies $50. Make the necessary adjustment, by entry both in the Expense and Income Journal and in the General Journal. Care must be taken to see that duplicate items are checked in both Journals.

Calculate depreciation on the assets acquired from the Henry Williams, Inc., according to the appraised value at date of acquisition, using the composite rate of depreciation shown in the appraisal report. Fixed assets acquired during the year will be considered as purchased on the first or the fifteenth of the month, whichever is the closer to the date of actual purchase, and depreciation will be figured on that basis. All automotive equipment is to be depreciated at the rate of 20%, salesroom equipment at 14%, and Building #5 at 2½%. No depreciation is to be calculated on the portion of building demolished nor on the construction of the new addition. Be careful not to calculate depreciation the second time on assets disposed of during the year. Charge the depreciation on the Receiving and Shipping Building and on Receiving and Shipping Room Machinery and Equipment to the Receiving and Shipping Room Expense account and that on Building #1 Power Plant, and on Power Plant Machinery to Light, Heat and Power expense account. Be sure that all entries to fixed asset accounts for the current period have been taken into consideration in calculating depreciation.

Write off 10% of the organization expense.

The cashier discovers that a check for $2,500 received from a sundry consignment customer as an advance payment has been credited to a sundry trade customer's account. Make necessary entry for correction.

Set up a reserve for doubtful accounts equivalent to ½% of total Net Sales. (Be sure that you have relieved the Sales account of the merchandise out on consignment before calculating the amount of bad debts. See next paragraph.)

An analysis of the Consignment Accounts Receivable Ledger shows debit balances aggregating $9,604 and credit balances aggregating $4,925. Take cognizance of this in drawing up work sheet and statements. The balance of the Consignment Shipments account is made up of charges for upholstered furniture of $5,750 and charges for E-Z Chairs of $12,435. The method used in entering consignment shipments and sales requires a periodic adjustment to arrive at the actual sales for the period. The adjustment required is the transfer of the balance in the consignment shipment control account to the respective sales accounts according to the analysis given above. When the books are opened in the ensuing period this entry is reversed, thus preparing the books to record new consignment transactions.

Upon analysis of the Accounts Receivable on December 31, it is estimated that sales discounts of $3,934.91 will be taken advantage of.

Prepare a voucher and issue a check for the sinking fund instalment due on December 31 in accordance with the note indenture. Also set up the necessary reserve at this time.

Amortize Bond Discount and Expense by the straight line method.

Dividends of 3½% on Preferred Stock and $1 per share on both classes of common stock were declared on December 31, 19–, payable February 1 of the next year to stockholders on record as of January 15.

Allow dividends on all stocks subscribed for even though not yet fully paid for, it having been the agreement that such dividends are to be applied against unpaid subscription balances.

Apportion expenses over operations on the work sheet in the following manner:

	Mfg.	Selling	General Admin.
Light, Heat, and Power	80%	10%	10%
Officers' Salaries	50%	30%	20%
Telephone and Telegraph (account #803)	20%	60%	20%
Taxes	80%	10%	10%
Repairs and Maintenance	80%	10%	10%
Depreciation Building #3, Administration		66⅔%	33⅓%

	Selling	Upholstered Furniture Receiving	Raw Material Receiving
Receiving and Shipping Room	50%	25%	25%
Delivery Expense	66⅔%	16⅔%	16⅔%
Depreciation Truck	66⅔%	16⅔%	16⅔%

After all adjusting entries have been set up on the rough draft journals, post these entries to the work sheet and make the necessary distributions. The balances or totals of the various operating columns —e.g., manufacturing, cost of sales, and the classes of expenses, if the 18-column sheet is used—will be carried forward to the Profit and Loss columns to determine the net profit for the year.

Submit adjusting journal entries and work sheet for approval.

Assignment 9

Prepare the formal statements, a condensed balance sheet, and a condensed statement of profit and loss, supported by such detailed schedules as you consider necessary, including a Statement of Surplus.

The statement of profit and loss is a departmental or product statement designed to show net profits on E-Z chairs and Upholstered Furniture. Use a total and two distributive columns. It will be necessary to prorate all expenses over the two departments. Make the prorations on the following bases:

Apportion Selling, General Administrative, Financial Management Expense, and Financial Management Income—except where actual expense or income is known—as follows: two-thirds to E-Z Chairs and one-third to Upholstered Furniture. Exceptions to the above basis are noted as follows:

Sales discounts:	
Upholstered Furniture	$14,224.74
E-Z Chairs	27,255.88
Purchase discount:	
Upholstered Furniture	$23,785.49
E-Z Chairs (Raw Materials)	18,736.11

The following are to be apportioned two-thirds to Upholstered Furniture and one-third to E-Z Chairs: Depreciation; Repairs and Maintenance; Light, Heat, and Power; and Taxes.

The profit and loss statement is to be supported with the usual schedules—cost to manufacture, cost of sales, and the groups of expenses. (For statement purposes classify interest on fixed liabilities and amortization of organization expense as non-operating expenses.)

Assignment 10

Adjust and close the books in accordance with the data given in the foregoing assignments. Before closing the books be sure to summarize and post all journals affected by adjusting entries. Prepare a post-closing trial balance of the General Ledger.

All closing entries will be made in the general journal, as it will not be necessary to list the various accounts in the Expense and Income Subsidiary ledgers as those accounts will be closed off after posting the adjusting entries. Therefore, in closing merely transfer the balances of the various control accounts to the Profit and Loss Summary account.

Reverse the adjusting entries bringing on to the books the Prepaid and Accrued Expense and Income items so as to prepare the various accounts for record in the new fiscal period. Take off a proof of the Expense and Income ledgers, after posting the reversing entries.

Do not neglect to make the necessary entries concerning consignment shipments, see page 157 for instructions.

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